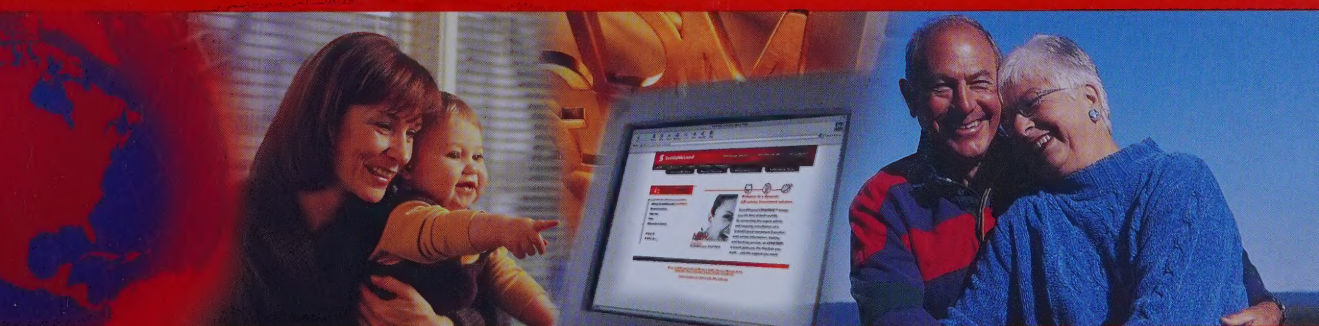



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## 2000 ANNUAL REPORT







**Scotiabank is one of  
North America's premier  
financial institutions and  
Canada's most international  
bank, serving customers in  
more than 50 countries  
worldwide.**

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On the cover and throughout this annual report, we proudly feature Scotiabank Group clients and employees from across Canada and around the world. Our thanks to everyone who participated.





## 2000 PERFORMANCE VS TARGET

### RETURN ON EQUITY

#### TARGET:

Earn a return on equity of  
16% to 18%.

**Performance: 17.6%**

### EARNINGS PER SHARE

#### TARGET:

Generate growth in earnings per common  
share of 12% to 15% per year.

**Performance:** Earnings per share were \$3.67,  
**up 25%** from last year.

### PRODUCTIVITY

#### TARGET:

Maintain a productivity ratio  
of less than 60%.

**Performance: 56.5%**

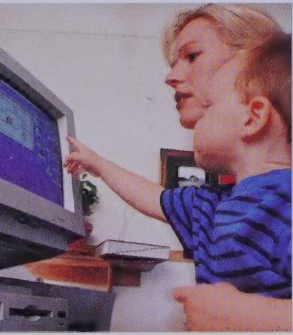
### TIER 1 CAPITAL

#### TARGET:

Maintain Tier 1 capital ratio  
of 7.5% to 8.0%.

**Performance: 8.6%**

## 2000 A YEAR OF ACCOMPLISHMENTS



### DOMESTIC BANKING

Canadian retail and commercial banking employs more than 23,000 people and provides a full range of financial services to individuals and small and medium-sized enterprises. Customers are served through a national network of more than 1,100 branches, over 2,100 ABMs, four call centres, plus telephone, wireless and Internet banking.



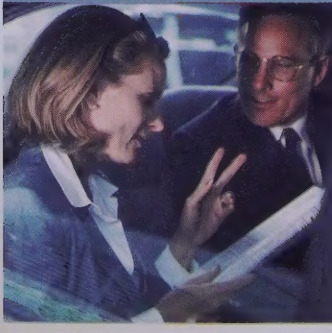
### WEALTH MANAGEMENT

The Wealth Management Group incorporates key personal investment and advisory activities within the Scotiabank Group. Wealth Management offers clients a comprehensive line of products and services, encompassing mutual funds, full-service and discount brokerage, and private banking and trust.



### INTERNATIONAL BANKING

Scotiabank's multinational network provides a complete range of financial services to both local and international customers around the world. Including subsidiaries and affiliates, the division has more than 1,000 branches and offices, over 1,500 ABMs, and includes more than 21,000 employees in Asia, the Caribbean and Latin America.



### SCOTIA CAPITAL

Scotiabank Group's global corporate and investment banking operations provide specialized solutions for corporate, institutional and government clients. Scotia Capital has recognized strengths in specialized and syndicated lending, corporate debt and equity underwriting, mergers and acquisitions, derivatives, fixed income, foreign exchange, and precious and base metals products.



## 2000 HIGHLIGHTS

- Produced net earnings of \$882 million
- Maintained number one ranking among Canadian banks for overall customer service, according to an independent study
- Identified as a top Canadian employer in the book *Canada's Top 100 Employers*
- Implemented strategic investments in R&D and high-tech companies through e-Scotia

- Generated record revenues and earnings
- Launched Scotia Partners Portfolios, including 16 leading mutual funds from seven different companies
- Created i:PARTNER, combining online trading convenience with personalized investment advice
- Entered into alliance with Capital International Asset Management to develop 10 new mutual funds – the Scotia Mutual Funds' Capital International Series

- Posted record earnings of \$364 million
- Expanded retail network and enhanced access to electronic banking in Caribbean and Latin America
- Recorded strong growth in Asian earnings and expanded branch network in India
- Increased stake in Chile's Banco Sud Americano to 98%

- Produced net earnings of \$650 million
- Named the number one Canadian bank for currency research and trading strategies by *Euromoney*
- Produced record results in Global Trading, including derivatives, fixed income and foreign exchange
- Co-executed largest equity forward contract in Canadian history for BCE

## PRIORITIES

### Increase revenue and profitability by:

- building deeper and more profitable relationships with our customers – particularly homeowners and small and medium-sized businesses
- meeting customers' life cycle needs with bundled and packaged financial solutions and advisory tools
- doubling the number of e-banking customers in 2001
- continuing to improve operating efficiency through centralization and streamlining

### Build share of wealth management market by:

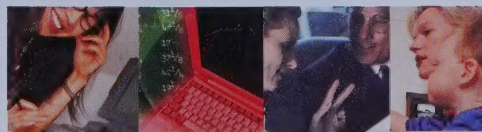
- increasing market share of mutual fund assets
- continuing to build brokerage business by expanding investment executive network and re-engineering and relaunching discount brokerage operation
- optimizing products and service delivery for most affluent clients
- developing a new investment sales force to serve the needs and preferences of specific client segments

### Achieve superior growth and profitability by:

- launching new Sales Delivery Platform in the Caribbean to sustain market dominance through revenue growth and cost control
- investing resources in high-growth markets with increasing demand for financial services, particularly Argentina, Chile and Mexico
- leveraging Scotiabank's capabilities in Asia, particularly in trade finance

### Maximize return on equity by:

- deepening relationships with key clients through fully integrated approach to providing products and advice
- allocating capital to maximize overall profitability and carefully monitoring credit quality and risk factors
- achieving a top three ranking in each product line in Canada
- building on success and leveraging strength in Global Trading







PETER C. GODSOE  
*Chairman of the Board & Chief Executive Officer*

YOUR BANK ACHIEVED RECORD RESULTS IN 2000, and marked the start of the new millennium by surpassing virtually all of our performance goals and objectives.

Net income reached a record \$1,926 million in 2000, resulting in a return on equity of 17.6% and earnings per common share of \$3.67, an increase of 25% from 1999. This performance helped produce a return on common shares, including dividends and appreciation in market value, of 33.3% in 2000. Our shareholders have enjoyed a compound average annual return of 28.0% over the past decade – one of the best and most consistent returns of any major Canadian company.

#### FOUNDATION FOR SUCCESS

As we enter 2001, it's clear that the ability to constantly adapt to an environment characterized by rapidly changing technologies, ever-increasing competition and industry consolidation in Canada and around the world is critical. It's also clear that the underlying strategies your Bank has put in place, combined with our long-standing ability to execute effectively, represent a solid foundation for ongoing success and increased long-term shareholder value.

Our overall approach continues to be centred on our customers – helping them become better off financially. At the same time, we are focused on growth – in particular, allocating capital to support high-performing and high-potential areas such as electronic banking, wealth management and key international markets.

We are accelerating the use of first-class technology to support our business lines in meeting customer needs. Through e-Scotia, our e-commerce subsidiary, we are Web-enabling our products and delivery channels, making it possible for consumers and businesses to access e-banking and e-commerce services anytime, anywhere. We now have more than one million online and telephone banking customers. Our goal is to at least

double the number of e-banking customers in 2001. In addition, we are generating new revenue through joint ventures, alliances and direct investments – developing technology-based products that help our customers capitalize on opportunities in the global e-commerce marketplace.

#### GROWTH AND DIVERSIFICATION

Diversification by business line and by markets continues to be a critical factor in our plans. Not only does this significantly broaden our earnings base, it also reduces risks and volatility, and contributes to our solid track record of consistent overall earnings growth.

Domestic Banking remains the foundation of our Bank. Combined with Wealth Management, our Canadian retail and commercial operations achieved a net income of \$882 million or 46% of total earnings in 2000.

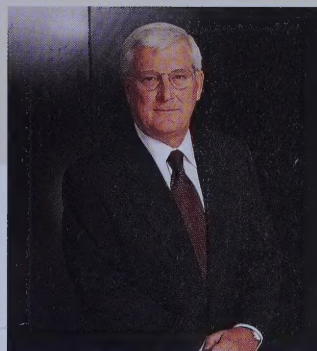
To deepen customer relationships and increase our share of our customers' investment business, we have reorganized our branch structure and are enhancing our sales and product capabilities. For example, within our branches, we are introducing Sales Builder, a sophisticated new contact management and sales tracking system, and a critical tool in our transition to a true sales culture.

In Wealth Management, we are working hard to enhance our efficiency and service capabilities, broaden our product offerings and improve the profitability of our client relationships. To increase valuable fee revenue, for example, we launched third-party funds in our branches, and established an alliance with Capital International Asset Management – one of the world's leading research and portfolio management companies – to expand our family of mutual funds. We are also aggressively expanding our sales force in our full-service brokerage, ScotiaMcLeod.

International Banking accounted for \$364 million, or 19% of the Bank's net income in 2000. This contribution to overall earnings continues to increase, demonstrating the strong growth of our international operations.



## ON TARGET IN KEY PERFORMANCE MEASURES



BRUCE R. BIRMINGHAM  
*President*

The global reach of our international network – in more than 50 countries around the world – is unique among Canadian banks. Our operations in the Caribbean make a significant and increasing contribution to net income. We are also well positioned in other markets to expand our international earnings in the future. The Bank has targeted regions and countries where the financial sector is expected to achieve superior levels of growth, and where the political environment promotes both stability and open market policies. The network we have built in Latin America is part of this overall thrust, including Scotiabank Quilmes in Argentina, Banco Sud Americano in Chile and Grupo Financiero Inverlat in Mexico, where we recently increased our stake to a majority position of 55%.

In Scotia Capital, our corporate and investment banking businesses, we are well positioned as one of the best players in Canada. Scotia Capital contributed \$650 million, or 34% of the Bank's net income in 2000. Our Global Trading operations, the Bank Finance group and our Institutional Equity group achieved particularly strong results.

In Scotia Capital's domestic operations, our goal is to be ranked in the top three in each of our product lines. In the U.S., where our focus is largely on credit and risk management products, our goal is to maintain our position as one of the leading non-U.S. banks in this highly competitive market. We are also committed to improving fees and overall ROE, all the while paying close attention to credit quality and risk.

### EXPENSE AND RISK MANAGEMENT

With the Canadian and U.S. economies likely nearing the peak of the business cycle, we are rigorously managing credit risk in all of our businesses. Similarly, expense management is a relentless priority. We have a long history – the best record in Canada – of consistently improving productivity through continuous improvement programs. Our productivity ratio was 56.5% in 2000, the best among all Canadian banks.

### A GLOBAL TEAM

Ultimately, our success is rooted in our great global team of people. We are focused on creating an environment which rewards employee performance and fosters skills development. We know that satisfied, motivated, knowledgeable employees will deliver superior customer service and sales. This, in turn, enables us to build deeper, more profitable relationships with our customers and improve the Bank's overall performance.

### EMERGING OPPORTUNITIES

On a final note, we have been very supportive of the legislative process for Canadian financial sector reform. We expect legislation to pass in 2001 which will lead to further growth opportunities for your Bank through increased structural and organizational flexibility, more open ownership policies and a greater range of permitted investments, especially in technology-related areas.

### OUTLOOK

Overall, we believe that our strategy, combined with our proven ability to execute effectively and efficiently across our core businesses – Domestic Banking and Wealth Management, International Banking and Scotia Capital – forms a solid foundation for the future. With a clear focus on our customers, and first-rate expense and risk management, we are confident that Scotiabank will continue its record of growth and successful performance in the years ahead – for our customers, shareholders and our employees.

Peter C. Godsoe  
*Chairman of the Board &  
Chief Executive Officer*

Bruce R. Birmingham  
*President*



# OVERVIEW OF FINANCIAL RESULTS

## Financial Highlights (for the years ended October 31)

	2000	1999 <sup>(1)</sup>	1998	1997	1996
<b>OPERATING RESULTS (\$ millions)</b>					
Total revenue (TEB) <sup>(2)</sup>	<b>9,058</b>	8,018	7,364	6,503	5,467
Provision for credit losses	<b>765</b>	635	595	35	380
Non-interest expenses	<b>5,119</b>	4,756	4,446	4,059	3,217
Income taxes (TEB)	<b>1,184</b>	1,030	891	861	770
Net income	<b>1,926</b>	1,551	1,394	1,514	1,069
Preferred dividends	<b>108</b>	108	97	99	113
Net income to common shareholders	<b>1,818</b>	1,443	1,297	1,415	956
<b>OPERATING MEASURES</b>					
Net interest margin (TEB)(%)	<b>2.26</b>	2.11	2.11	2.13	2.18
Productivity ratio (%)	<b>56.5</b>	59.3	60.4	62.4	58.8
Return on equity (%)	<b>17.6</b>	15.3	15.3	20.2	15.8
<b>BALANCE SHEET AND OFF-BALANCE SHEET INFORMATION (\$ millions)</b>					
Cash and securities	<b>60,130</b>	51,084	52,400	46,173	40,642
Loans and acceptances	<b>175,710</b>	155,022	159,370	133,314	111,381
Total assets	<b>253,171</b>	222,691	233,588	195,153	165,301
Deposits	<b>173,900</b>	156,618	166,360	138,975	117,894
Subordinated debentures	<b>5,370</b>	5,374	5,482	5,167	3,251
Preferred shares	<b>1,775</b>	1,775	1,775	1,468	1,325
Common shareholders' equity	<b>11,200</b>	9,631	9,039	7,930	6,424
Assets under administration (\$ billions) <sup>(3)</sup>	<b>151.8</b>	141.4	117.4	112.4	201.1
Assets under management (\$ billions) <sup>(3)</sup>	<b>18.5</b>	16.2	13.5	14.1	13.7
<b>BALANCE SHEET MEASURES</b>					
Tier 1 capital ratio (%)	<b>8.6</b>	8.1	7.2	6.9	6.7
Total capital ratio (%)	<b>12.2</b>	11.9	10.6	10.4	8.9
Common equity to risk-adjusted assets (%)	<b>7.3</b>	6.9	6.0	5.8	5.5
Specific provision for credit losses as a % of average loans and acceptances	<b>0.46</b>	0.31	0.34	0.30	0.37
Net impaired loans as a % of loans and acceptances	<b>(0.03)</b>	(0.10)	0.26	0.44	0.67
<b>COMMON SHARE INFORMATION</b>					
Per share - basic earnings (\$)	<b>3.67</b>	2.93	2.64	2.95	2.04
- fully diluted earnings (\$)	<b>3.62</b>	2.91	2.63	2.92	2.03
- dividends (\$)	<b>1.00</b>	0.87	0.80	0.74	0.65
- book value (\$)	<b>22.49</b>	19.49	18.37	16.19	13.53
Share price - high (\$)	<b>45.65</b>	36.90	44.70	34.10	21.20
- low (\$)	<b>26.05</b>	28.60	22.80	20.55	14.19
- close (\$)	<b>43.50</b>	33.60	32.20	31.08	21.13
Shares outstanding (thousands)					
- average	<b>495,472</b>	493,136	490,914	478,972	468,716
- end of period	<b>497,965</b>	494,252	492,089	489,812	474,893
Market capitalization (\$ millions)	<b>21,661</b>	16,607	15,845	15,220	10,030
<b>VALUATION MEASURES</b>					
Dividend yield (%)	<b>2.8</b>	2.7	2.4	2.7	3.7
Dividend payout ratio (%)	<b>27.3</b>	29.7	30.3	25.1	31.9
Market value to book value multiple	<b>1.9</b>	1.7	1.8	1.9	1.6
Price to earnings multiple	<b>11.9</b>	11.5	12.2	10.5	10.4

(1) Refer to Note 22 of the Consolidated Financial Statements.

(2) Taxable equivalent basis

(3) September 30



A warm, close-up photograph of a woman with reddish-brown hair and bangs, smiling as she looks at a computer screen. A baby is sitting on her back, also looking at the screen and pointing with their right hand. The background is a window with horizontal blinds, letting in soft light. The overall mood is positive and forward-looking.

## REPORT ON OPERATIONS

**AT SCOTIABANK**, we see the future through the eyes of our customers – anticipating their priorities, wishes and needs. We're combining the best technology with the expertise of our people to provide creative solutions to meet their changing needs.

Around the world, the Scotiabank team is continuing to build strong relationships with our customers. In this way, we will continue to differentiate ourselves as a bank and build long-term value for all Scotiabank stakeholders: our customers, our shareholders, our employees and the communities we serve.

On the following pages, we look at how we're helping customers achieve their future financial goals in each of our core businesses: Domestic Banking and Wealth Management, International Banking and Scotia Capital.





"In branches, at ABMs, through the Internet, by phone or wireless handheld devices, Scotiabank provides leading-edge service to all our customers – anywhere, anytime. We're also providing individuals and small business customers with new and better packaged financial solutions – quick, convenient and affordable access to the financial services they need the most."

– BOB CHISHOLM, Vice-Chairman, Domestic Banking

## DOMESTIC BANKING

### BELIEVING IN OUR CUSTOMERS

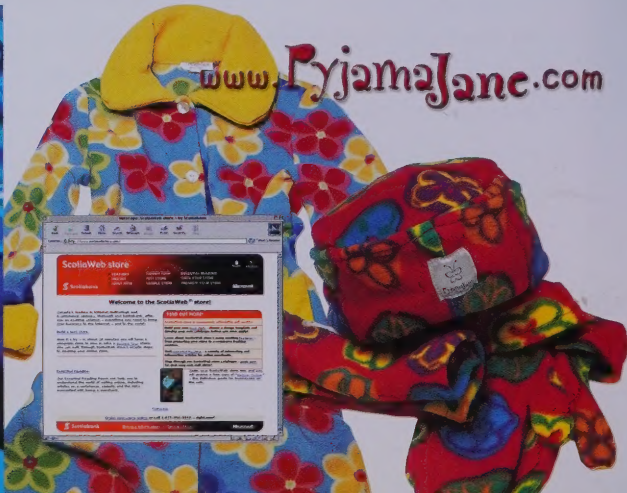
Global Thermoelectric Inc. of Calgary, Alberta, is the world's largest supplier of thermoelectric generators and the only Canadian supplier of advanced diesel-fired crew compartment heaters for the U.S. army. And its innovations in developing high-temperature fuel cells may one day revolutionize home heating and ground transportation.

"Scotiabank makes a real effort to understand our business," says company President and CEO Jim Perry, seen here with Scotiabank Account Manager Susan de St. Jorre. Perry says that initial project financing provided by the Bank for a major generator contract in India helped set his company on the growth track. The Bank also guides the firm through the complexities of the Indian banking system. "We now sell into 46 countries, and we're happy to have Scotiabank's specialists right here in our city who can assist us."

### GROWTH POTENTIAL

Small business is the backbone of Canada's economy. Imagine the potential for growth if these small businesses could conveniently and easily make the world their marketplace. Small business owner Lisa Jane Raeburn did just that. Using ScotiaWeb store – developed jointly by Scotiabank and Microsoft Canada – Raeburn set up her PyjamaJane.com Web site, opened a ScotiaWeb store merchant account and began selling her line of flamboyant pyjamas and accessories to the world. "It was so easy to do," she says. "And the fact I can offer my customers a secure method of paying for my products is great."

Technology is playing an expanding role in helping us serve our customers better: e-commerce, Internet banking, wireless digital telephone banking, and multi-purpose smart cards that replace cash.







#### A GROWING RELATIONSHIP

A visit to see Personal Banking Officer Deedee Kwok at the local Scotiabank branch launched what has become a mutually rewarding relationship between the Bank and the Lin, Leung, Ho and Guan families of Surrey, B.C. It all began with sisters Jackie and Patty Lin, who immigrated to Canada in 1994. As other family members and friends arrived, they too were referred to Kwok at Scotiabank. Today, the members of these extended families (left) are full-service customers, using a variety of Scotiabank products and services – from everyday banking to mortgages, lines of credit and investments – to meet their financial needs. They continually demonstrate their high regard for the relationship they enjoy with Scotiabank through ongoing referrals.

Total **financial solutions** ...  
for businesses **and** individuals.



#### PROVING OUR CAPABILITIES

When Home Hardware, with 1,100 dealer-operators across Canada, purchased the Beaver Lumber hardware chain, Scotiabank provided 60 per cent of the financing.

"Although we'd dealt with another bank for 35 years, we turned to Scotiabank because they could meet our financial needs and time constraints," says Paul Straus, Home Hardware's Vice-President and Chief Executive Officer, shown here with President and founder Walter Hachborn (left).

One factor that clinched the new business relationship, Straus says, was that Scotiabank, through its local Commercial Banking Centre in Kitchener-Waterloo, Ont., had made the effort to "get to know us, our culture and our business."





"We are committed to significantly increasing our wealth management share in market. We're doing it by building deeper, more profitable relationships – providing our customers with a full range of advice and services to meet their investment needs, no matter how complex."

— JAMES M. GIBSON, President, ScotiaMcLeod Wealth Management

## WEALTH MANAGEMENT

### BROKERAGE SERVICES – ANY WAY CLIENTS WANT THEM

Whether designed for self-reliant investors or those seeking full investment advice, brokerage services play an increasingly important role in consumers' financial plans these days.

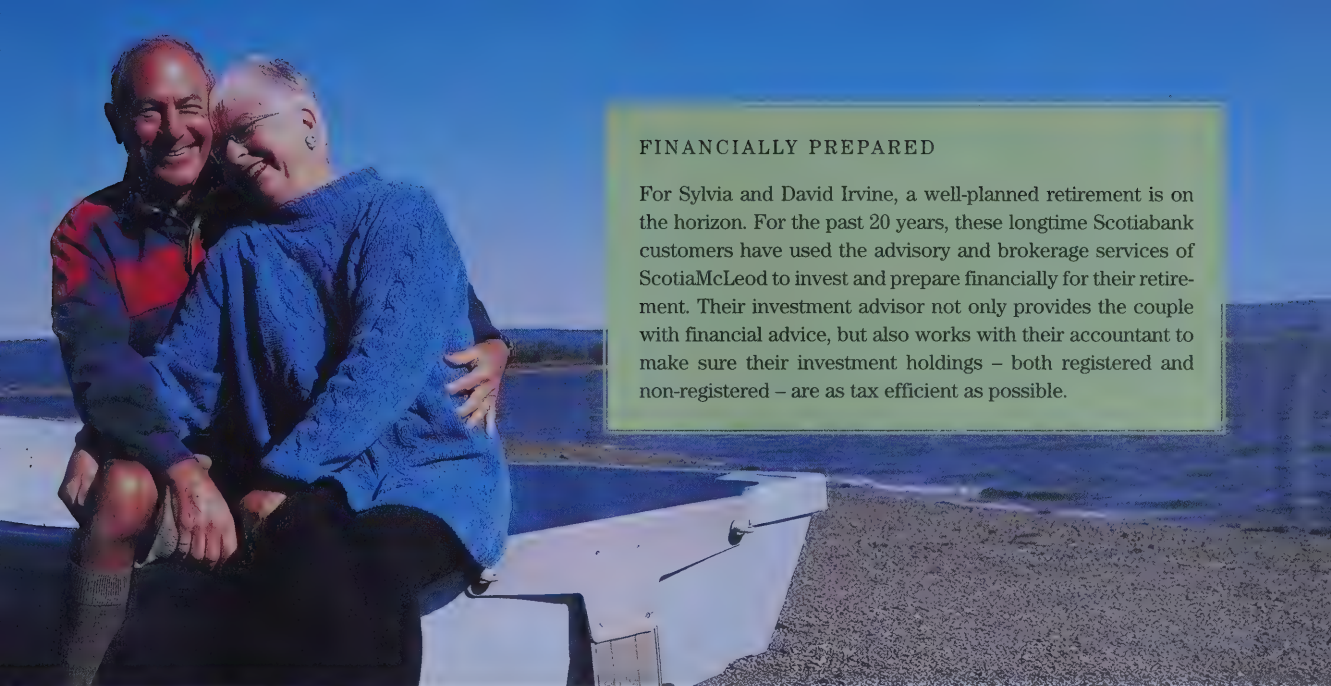
Demand for discount brokerage services has soared. In response, Scotia Discount Brokerage has vastly expanded and improved its capabilities, introducing state-of-the-art technology, adding more staff and tapping the Bank's call centre expertise.

ScotiaMcLeod, the Bank's full-service brokerage arm, plans to add more than 200 investment executives to help meet Canadians' wealth management needs.

As well, it has created *i:PARTNER*. This innovative new service gives clients access to a full range of Internet and call centre services and is a natural extension of ScotiaMcLeod's broad range of investment options. *i:PARTNER* offers clients online access to market data and analysis and proprietary and third-party research, and the flexibility of trading online, over the phone via a call centre, or through a ScotiaMcLeod investment executive. For added convenience, *i:PARTNER* also offers a seamless link between the client's bank and brokerage accounts.







#### FINANCIALLY PREPARED

For Sylvia and David Irvine, a well-planned retirement is on the horizon. For the past 20 years, these longtime Scotiabank customers have used the advisory and brokerage services of ScotiaMcLeod to invest and prepare financially for their retirement. Their investment advisor not only provides the couple with financial advice, but also works with their accountant to make sure their investment holdings – both registered and non-registered – are as tax efficient as possible.

Client-focused products.  
Specialized investment advice.



#### BALANCING RISK AND REWARD

Many people get started on the road to wealth by investing in mutual funds. Scotia Mutual Funds now offers a family of 41 funds – among them the recently launched Capital International Series (which includes five “clone” funds for RRSP eligibility) and the Scotia Young Investors Fund. There’s also a choice of Scotia Asset Allocation Services that allow investors to optimize long-term performance, while finding a suitable balance between risk and reward.

When clients’ wealth management needs become more complex, however, professional help is available. For Tom and Donna Smith (with sons Duncan and Cameron), a referral to Scotiastrust was the answer. Together with Scotiastrust, they identified their financial needs, investment goals and level of risk tolerance – but handed the day-to-day investment decision making over to Scotiastrust’s professional portfolio managers.



"Thinking globally is not new for Scotiabank – we've succeeded in markets around the world for more than 100 years. As Canada's most international bank, we're uniquely positioned to leverage our global expertise and create long-term value – by investing in high-potential regions poised to achieve significant growth."

– RICK WAUGH, *Vice-Chairman,  
Wealth Management and International Banking*



## INTERNATIONAL

### OPPORTUNITY FOR GROWTH *India*

Scotiabank sees many opportunities for new business in India. Over the past 18 years, we have developed strong relationships with many of India's leading corporations.

Sterlite Group, with diversified interests in optic fibre, telecom cables and base metals, for example, is India's largest private sector producer of telecom cables and one of only five players worldwide in the field of optical fibre technology. Scotiabank is now one of Sterlite's primary bankers, meeting the company's diverse needs – from working capital to trade finance and foreign exchange, as well as metal hedging activities through ScotiaMocatta. In addition, Sterlite purchases raw copper from Chile, channeling business through the Bank's local subsidiary, Banco Sud Americano. From left, at Sterlite's head office in Mumbai, are Scotiabank's Munish Sapra and Denis Vaz with Navin Agarwal, a director of Sterlite.



### SCOTIABANK QUILMES *Argentina*

New and refurbished branches, a unique customer centre specializing in mortgages, a loyalty reward program, and new products for individuals and small businesses are among initiatives that are winning new business for Scotiabank Quilmes in Argentina.

When Scotiabank Quilmes was awarded the payroll business of Wal-Mart Argentina, the bank provided the 4,700 employees with one of its newest products, ScotiaPack Suelto. This can include any combination of chequing account, savings account (in local currency and U.S. dollars), debit card, credit card, personal loan, travel assistance and other valuable benefits. The bank was also chosen to provide a network of 17 automated banking machines (ABMs) in Wal-Mart Argentina's 11 supercentres, one of the largest supermarket chains in the country.







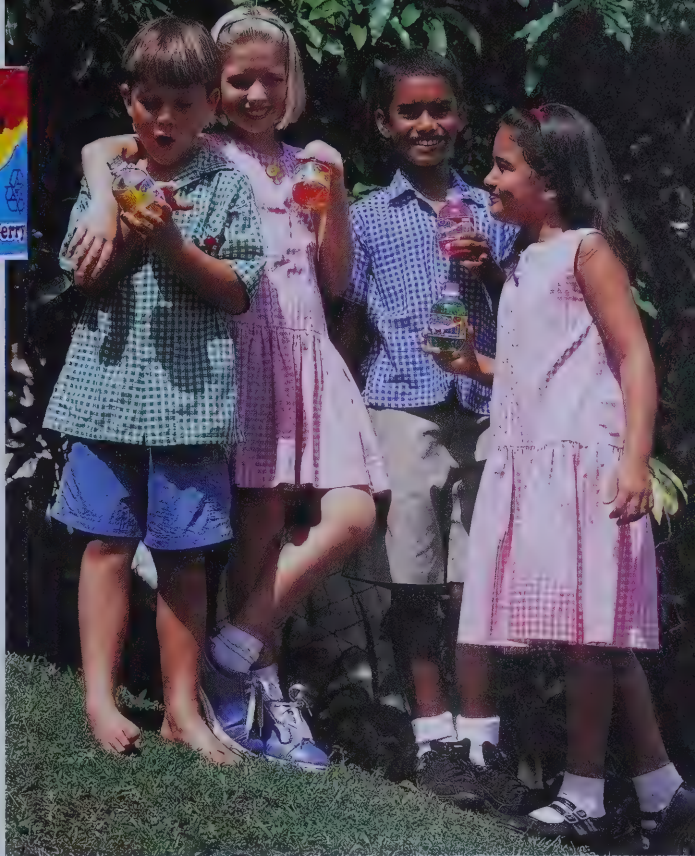
## CARIBBEAN POP

*Trinidad & Tobago*

The popularity of Chubby and Busta brands helped make Trinidad-based S.M. Jaleel & Co. Ltd. one of the largest producers of soft drinks in the Caribbean. Now, with the help of Scotiabank – a leading banker to the beverage industry worldwide – S.M. Jaleel is introducing Chubby to the markets of Canada and the United States.

“A partnership with a financial institution that understands the industry and the global vision of our management team is crucial to the ongoing growth and success of S.M. Jaleel,” says Martin Battersby, the soft-drink producer’s Vice-President of Finance. Export sales now generate the majority of the company’s revenue.

Scotiabank’s multi-currency and multi-term operating and trade finance lines have provided S.M. Jaleel with links to new markets, helped finance new manufacturing facilities in several countries and – of particular importance in a global market – helped the company hedge its currency exposure.



# Poised for **significant** growth...

## MULTI-CHANNEL BANKING CONVENIENCE

*Mexico*

In late November 2000, Scotiabank increased its stake in Grupo Financiero Inverlat of Mexico to 55 per cent.

Just like our customers in Canada, customers of our newest subsidiary – Scotiabank Inverlat – are looking for the kind of round-the-clock, multi-channel banking convenience that electronic banking provides.

Through Invertel telephone banking and InverWeb online banking, they can carry out a full range of transactions, such as checking deposit and credit balances, transferring money and making payments. These services are backed up by two call centres – located in Mexico City and Monterrey – which handle an average of 400,000 calls per month. Companies, too, can carry out electronic banking services, using Invernet. In Plaza Inverlat in Mexico City, José Luis Gómez checks out the various interactive banking options offered by Scotiabank Inverlat.







"In the most competitive market in the world – and against organizations many times larger than ourselves – we successfully compete in providing credit and risk management products to major U.S. corporations."

– BARRY LUTER, *Co-Chairman and Co-CEO, Scotia Capital*

"Scotia Capital's business has doubled in size over the last five years. Our goal in Canada is to be among the top three Canadian providers in each of our product lines."

– DAVID WILSON, *Co-Chairman and Co-CEO, Scotia Capital*

## SCOTIA CAPITAL

### PROJECT FINANCE DEAL OF THE YEAR

Scotia Capital continues to lead the way in innovative project financing solutions for its clients. Financing new power generation projects around the world is not new. But closing a US\$1 billion revolving construction credit facility for a portfolio of gas-fired power projects for Calpine Construction Finance, a subsidiary of Calpine Corporation of the United States, was the first of its kind in the power generation industry. *Investment Dealer* digest recognized this, naming it the Project Finance Deal of the Year, and *Euromoney* ranked it the U.S. Project Finance Deal of the Year. When Scotia Capital put the loan into syndication, it was oversubscribed by the 25 participating financial institutions.

### CUSTOMIZED FINANCING SOLUTIONS

It requires a lot of capital to build a luxury cruise liner. Since the buyer often pays only 15 to 25 per cent of the vessel's purchase price at early stages of construction, the shipbuilder uses substantial amounts of working capital to fund completion of the vessel.

Internationally renowned shipbuilder Kværner MASA-Yards of Finland – a client of long standing – looked to Scotia Capital London for a sophisticated but cost-effective source of capital to fund the US\$540 million needed to build luxury liners for Costa Crociere, a subsidiary of Carnival Corporation, and Royal Caribbean Cruises Ltd., both also long-term clients. Scotia Capital was able to structure two customized cross-border securitizations of the receivables Kværner MASA-Yards would have been paid upon delivery of the ships. The result? The shipbuilder got the money needed to complete the vessels – and Costa and Royal Caribbean each added a state-of-the-art, luxury cruise liner to their fleet.





# Products. Industry Knowledge. **Relationships.**



## CREATING A UNIQUE PRODUCT

Scotia Capital is committed to providing creative, timely and tailored solutions to its clients' business needs. Rogers Communications Inc., Canada's national communications company, wanted a cost-effective way to monetize the value of its holding of AT&T Canada Inc. Class B non-voting deposit receipts. Rogers also wanted to retain the capital growth potential and benefits of ownership of this investment going forward. Structured finance specialists from Scotia Capital's Global Trading group created a totally customized, investment-grade solution: the Scotia Term-Extendible Preferred Security. By issuing preferred securities, Rogers was able to considerably enhance its financial flexibility.

## WEB-BASED FX TRADING

Foreign exchange trading became faster and more convenient for clients of Scotia Capital and Scotiabank with the launch of ScotiaFX, a Web-based foreign exchange trading system that utilizes state-of-the-art security technology.

With real time market rates for approximately 40 currencies, ScotiaFX gives clients the flexibility and convenience of dealing foreign exchange spot, forward and swap transactions online. Clients also have online access to market commentary, research and analysis, the ability to customize settlement procedures, and the capability to monitor the history of their transactions from their desktops.

Launched initially to serve clients in North America, Scotia FX's hours of operation now extend from 2 a.m. to 7 p.m. (EST) to accommodate foreign exchange trading by clients in Europe and other parts of the world.





**"Quality, speed, leading-edge technology and strong alliances – these are what will enable us to continually deliver leading-edge financial services to our customers. Our new subsidiary, e-Scotia, is a direct response to the challenges of managing technological advances and competing effectively in the e-commerce marketplace."**

*– ALBERT WAHBE, Chairman and Chief Executive Officer, e-Scotia*

## e-SCOTIA

### VOICE RECOGNITION TECHNOLOGY

Scotiabank was the first bank in Canada to introduce voice recognition technology in its telephone banking, making it easier for Canadian consumers to access financial services from any phone, anywhere. Customers can give their instructions verbally, rather than punching in numbers. The new hands-free service is convenient for anyone, but it's especially helpful for blind or sight-impaired customers, including Scotiabank customer and employee Lisa Jones (below). Before the national roll-out, the system was endorsed by clients of the Canadian National Institute for the Blind.

### SMART CARD TECHNOLOGY

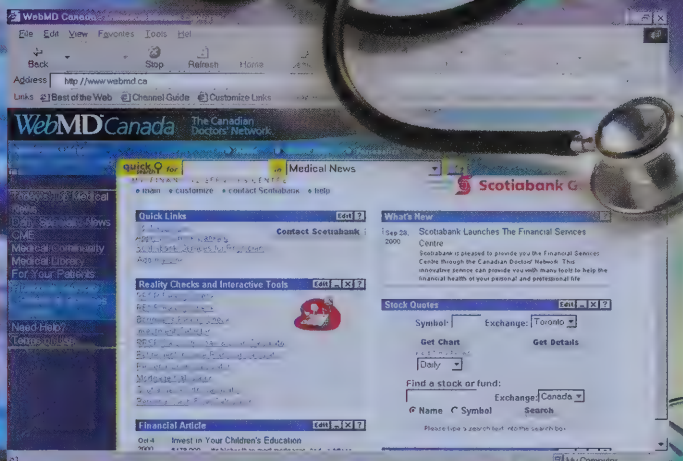
Smart cards use a tiny computer chip embedded in a plastic card to eliminate cash and make paying for purchases fast, easy and very convenient. Scotiabank has been successfully testing various uses of this new technology – for payment of transit fares, as multi-purpose student cards/electronic wallets, and as electronic "loyalty" cards. Organizers of the Niagara Grape and Wine Festival, held last September in St. Catharines, Ont., chose to make the Scotiabank smart card payment system the exclusive form of payment in the festival's wine-tasting area – giving visitors a taste of the future of this new technology.





## INNOVATIVE PHYSICIANS' WEB PORTAL

e-Scotia teamed up with WebMD Canada, the College of Family Physicians of Canada and The Royal College of Physicians and Surgeons of Canada to create the Canadian Doctors' Network. This secure, Web-based e-health portal provides physicians with tools to improve patient care, as well as services to save both time and money. Physicians coast to coast can conveniently access Scotiabank's array of personal and small business financial products and services – including the highly successful Scotia Professional Plan.



## WE'VE GOT OUR CUSTOMERS IN MIND

We're constantly exploring ways to use technology to serve our customers better and to generate new sources of revenue. Through our association with Rogers AT&T, Bell Mobility and other carriers, we're positioning Scotiabank as the premier provider of wireless financial services. Partnerships with e-commerce providers let us do things faster and more conveniently – like helping small businesses provide instant, online credit for their customers, or providing auto dealers with an Internet-based credit application and approval system.

Business to  
**business.**  
Business to  
**consumer.**





## COMMUNITY INVOLVEMENT

### SCOTIABANK KIDDY CRICKET

Extending our sponsorship as "The Official Bank of West Indies Cricket," the Scotiabank Kiddy Cricket Program, in association with the regional and local cricket boards, provided much-needed cricket equipment to more than 500 schools across eight countries in the Caribbean. In all, 1,000 teachers and 130 Scotiabank volunteer coaches were trained to teach the basic rules and skills of cricket to children. The budding cricketers – 1,680 of them (including the three above) – demonstrated their new skills during the lunch interval at internationally broadcast cricket matches held in the West Indies.

### SUPPORTING OUR EMPLOYEES' EFFORTS

Individually and in groups, Scotiabankers around the world volunteer and raise funds for causes near and dear to their hearts – like Laurie Hudson of Nova Scotia (far left), who serves as a radio dispatcher and treasurer for her local volunteer fire department. Through our Scotia Employee Volunteer Program and Team Scotia Community Program, the Bank recognizes the important role our employees play in their communities and provides financial support for the causes they espouse.

### RELAY FOR LIFE

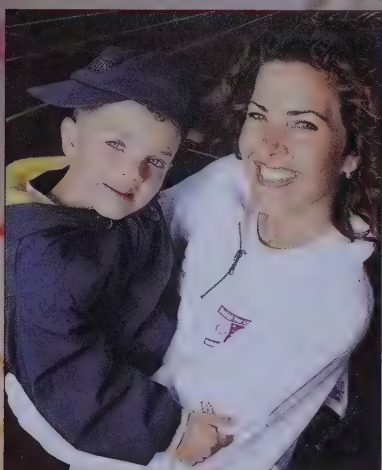
When the Sudbury, Ont., chapter of the Canadian Cancer Society approached Scotiabank for help to co-ordinate the 13-hour Relay for Life in early June, the Sudbury and area managers' team offered to organize the whole relay! The team of 125 Scotiabank volunteer organizers from all 10 Bank units in the Sudbury area hoped the relay would raise \$50,000. With the help of supporters like Honorary Relay for Life Co-Chair Carrie Brousseau and her son (far centre), they succeeded beyond their wildest dreams. The final tally was more than \$160,000.

### LUNCH HOUR VOLUNTEERS

Across Canada, a number of Scotiabank staff and pensioners volunteer their time to Meals on Wheels programs in their communities. For example, twice a month, more than 50 members of the Bank's Human Resources department (including Jackie Zunde, Monica Garamszeghy, Lynda Walker and Albert Tam-Wai, far right) spend their lunch hours delivering hot meals to the elderly and chronically ill in downtown Toronto as part of Meals on Wheels' corporate volunteer program.



fulfilling our **commitment**  
to **communities.**





# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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## Forward-looking statements

This report includes forward-looking statements about objectives, strategies and expected financial results. These statements are inherently subject to risks and uncertainties beyond the Bank's control including, but not limited to, economic and financial conditions globally, regulatory developments in Canada and elsewhere, technological developments and competition. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements, and the reader is therefore cautioned not to place undue reliance on these statements.



## STRONG NET INCOME AND CAPITAL GENERATION

Scotiabank had another record year in 2000, with net income increasing 24% to \$1,926 million. Over the past five years, net income has grown at a compound annual rate of 17%. Earnings per share (EPS) rose to \$3.67, a 25% increase over last year. Excluding one-time gains from the sale of our stock transfer business and Solidbank, our affiliate in the Philippines, EPS was \$3.56, a 22% increase. This was well in excess of our target range of growing EPS by 12% to 15% annually. Both Domestic Banking and International Banking contributed significantly to this strong performance.

Our capital base continues to strengthen as a result of this earnings growth. After payment of dividends, we generated \$1,482 million in capital this year. In fact, during the past five years, almost \$5.0 billion of capital has been internally generated.

We again demonstrated our ability to use this capital efficiently. Our return on equity was 17.6% in 2000, up from 15.3% in 1999, and near the top end of our target ROE range of 16% to 18%.

## DIVIDENDS AND RETURN TO COMMON SHAREHOLDERS

We increased our common share dividend in 2000 by 15% to \$1.00 per share, continuing our virtually unbroken record of dividend increases over the past four decades.

Return to common shareholders – which includes both dividends and appreciation in the market value of the Bank's common share price – was 33.3% in 2000. This was significantly better than the returns in the previous two years. Your Bank continued to perform well relative to its peer group.

Ownership of Scotiabank continues to provide investors with outstanding long-term returns. Over the past five years, the Bank's compound annualized return was 28.4%, and 28.0% over the last decade. These returns were better than those earned by the Toronto Stock Exchange (TSE) Banks and Trust Index and the TSE 300 Index.

For the financial years	2000	1999	1998	1997	1996
Annual return (%)	33.3	7.1	6.1	51.1	52.3
Five-year return (annualized) (%)	28.4	23.6	21.7	26.0	21.9

## SOLID PERFORMANCE ACROSS ALL BUSINESS LINES

Our strong results reflect the diversification of earnings across our business lines. Domestic Banking had an excellent year, driven by good revenue growth – particularly in Wealth Management – lower credit losses and strong expense control. Scotia Capital had good fundamental business growth, particularly in Global Trading; however, higher revenues in most parts of the business were offset by increased loan loss provisions. Net income in International Banking rose by 23%, led by gains in Latin America and Asia.

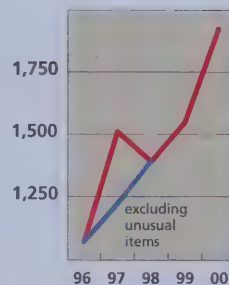
Net income, \$ millions	2000	1999 <sup>(3)</sup>	1998 <sup>(3)</sup>
Domestic Banking	\$ 882	\$ 649	\$ 641
Scotia Capital	650	745	483
International Banking	364	296	248
Other <sup>(2)</sup>	30	(139) <sup>(1)</sup>	22
<b>Total net income</b>	<b>\$ 1,926</b>	<b>\$ 1,551<sup>(1)</sup></b>	<b>\$ 1,394</b>

(1) Refer to Note 22 of the Consolidated Financial Statements in respect of the accounting for the increase in the general provision for credit losses in 1999.

(2) Includes all other smaller operating segments and corporate adjustments, such as the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes, increases in the general provision, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

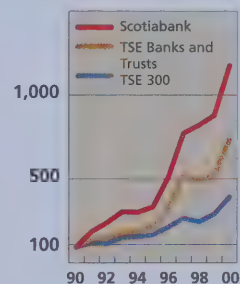
(3) 1999 and 1998 results restated to reflect reporting of all Wealth Management business in Domestic Banking.

Net income<sup>(1)</sup>  
\$ millions

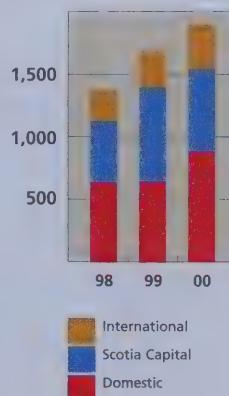


## Strong long-term return to common shareholders

Share price appreciation plus dividends reinvested, 1990 = 100



## Profitable business lines





## TOTAL REVENUE

The Bank's total revenue growth – net interest income plus other income – has been very strong for the past decade, with annual growth averaging 12%. This momentum continued in 2000, with year-over-year growth of 13%.

## NET INTEREST INCOME

Net interest income, the largest component of revenue, rose substantially during the year.

Net interest income (taxable equivalent basis) grew 12% to \$5.4 billion in 2000. This resulted from a 4% growth in average assets and a wider margin.

The Bank's net interest margin (net interest income as a percentage of average assets) was 2.26%, an increase of 15 basis points from the previous year. Both Canadian and foreign currency margins widened year over year.

A rise in the retail and commercial Canadian currency margin was the result of a higher spread between floating rate assets and non-interest rate sensitive funding. Solid growth in personal deposits and current account balances reduced the dependency on more expensive wholesale deposits.

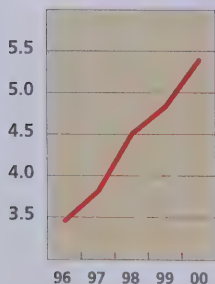
In Scotia Capital, wider interest spreads were earned in corporate lending, accompanied by higher loan origination fees. The margin also rose because of a decline in lower earning assets such as deposits with banks.

The margin in International Banking widened as a result of the first time consolidation of the results of Banco Sud Americano (BSA) Chile, along with higher investment income and improved margins in Scotiabank Quilmes.

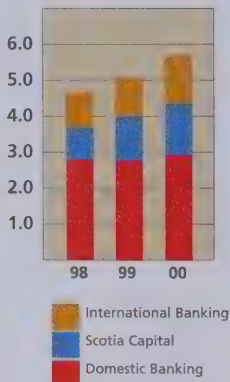
## OUTLOOK

Continued growth in net interest income is expected in the coming year, driven by higher business volumes and a modest rise in the net interest margin.

Solid growth in net interest income  
taxable equivalent basis  
\$ billions



Net interest income  
by business line  
\$ billions



## ASSETS AND LIABILITIES

The Bank continued to build its business base, with asset and deposit growth in all business lines.

## ASSETS

Average loans and acceptances (excluding reverse repos) totalled \$147 billion in 2000, an increase of 3% over the prior year. This growth was muted by the full-year impact in 2000 of securitizations completed during 1999, and additional securitizations undertaken during 2000. In total, securitizations reduced average earning assets by \$11 billion or 7%.

Adjusted for securitizations, the underlying growth in retail lending in Canada was \$3.6 billion or 6%. We continued to enjoy success from the introduction of Scotia Total Equity™ Plan and ScotiaLine VISA, innovative and flexible products that have helped us build on our strong position in the consumer lending market. An RRSP Catch-Up Line of Credit was introduced, which expands on our innovative RRSP Catch-Up Loan. Mortgage growth was lower than last year, reflecting more selective use of price discounting.

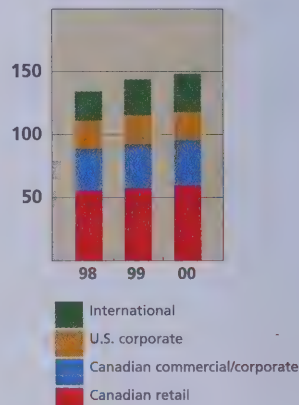
Loans to small and medium-sized businesses in Canada grew modestly during the year. ScotiaLine VISA for business was introduced late in the year, and is anticipated to be a major contributor to future growth.

Our international retail and commercial loan volumes rose significantly year over year. The consolidation of BSA Chile increased average loans and acceptances by \$1.9 billion. Excluding the impact of BSA Chile, the underlying growth in average volumes was still very strong at \$2.0 billion or 11%, with increases recorded in both the Caribbean and Asia.

U.S. corporate lending volumes fell modestly year over year. The full impact of the securitization of U.S. loans in 1999, and asset sales in both 1999 and 2000, were partly offset by normal business growth.

Average other earning assets (excluding lending business) grew by \$8 billion or 11% during the year. These assets include securities and funds on deposit with other banks (used primarily to maintain liquidity), and reverse repos. The majority of the growth arose from reverse repos, which increased by \$5 billion or 34% year over year.

A diversified loan portfolio  
\$ billions, average loans and acceptances





**Table 1 Average balance sheet and interest margin**

Taxable equivalent basis For the fiscal years (\$ billions)	2000		1999	
	Average balance	Average rate	Average balance	Average rate
<b>Assets</b>				
Deposits with other banks	\$ 16.6	5.52%	\$ 19.3	4.90%
Securities	37.9	6.54	32.5	6.26
Loans:				
Residential mortgages	49.0	6.76	46.1	6.72
Personal and credit cards	16.8	10.04	18.1	9.33
Business and governments	70.4	8.58	68.3	7.59
Reverse repos	18.7	5.81	13.9	4.91
Subtotal	154.9	7.83	146.4	7.28
Total earning assets	209.4	7.41	198.2	6.88
Customers' liability under acceptances	10.3	—	10.1	—
Other assets	19.0	—	20.7	—
Total assets	\$ 238.7	6.51%	\$ 229.0	5.95%
<b>Liabilities</b>				
Deposits:				
Personal	\$ 67.5	4.48%	\$ 63.9	4.36%
Business and governments	72.2	5.12	67.6	4.64
Banks	25.9	5.71	27.9	4.88
Subtotal	165.6	4.95	159.4	4.57
Subordinated debentures	5.3	6.06	5.3	5.90
Obligations related to assets sold under repurchase agreements	19.4	6.04	17.2	4.91
Other interest-bearing liabilities	9.6	4.62	8.2	4.34
Total interest-bearing liabilities	199.9	5.07	190.1	4.63
Other liabilities including acceptances	26.7	—	27.7	—
Shareholders' equity	12.1	—	11.2	—
Total liabilities and equity	\$ 238.7	4.25%	\$ 229.0	3.84%
Net interest margin		2.26%		2.11%

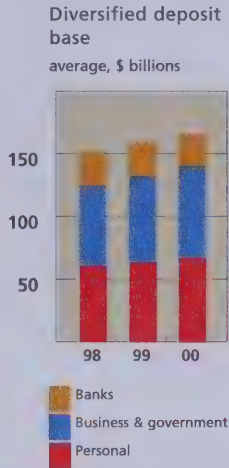
**Table 2 Volume/rate analysis of changes in net interest income**

Taxable equivalent basis For the fiscal years (\$ millions)	2000 versus 1999			1999 versus 1998		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Average volume	Average rate	Net change	Average volume	Average rate	Net change
<b>Net interest income</b>						
Assets	\$ 573	\$ 1,318	\$ 1,891	\$ 897	\$ (483)	\$ 414
Liabilities	(370)	(963)	(1,333)	(579)	494	(85)
Total	\$ 203	\$ 355	\$ 558	\$ 318	\$ 11	\$ 329

## LIABILITIES

The Bank's total average deposits were \$166 billion in 2000, an increase of \$6.2 billion or 4% over the prior year. Personal deposit growth during this period was higher at 6%.

Despite the continuing trend of customers migrating to mutual funds, Canadian currency personal deposits grew by \$2.5 billion or 5%, primarily from term products. Our already-popular Canadian and G-7 stock-indexed GICs were complemented by the introduction of a U.S. product. Our market share of tax-sheltered deposits rose by 43 basis points during the year, the third consecutive year of increase. The Bank was also successful in increasing current account deposits, as average balances grew by 17% year over year. This follows 15% growth during the previous year and represents a continuation of our success in building this deposit base over the last six years.



## OUTLOOK

Loan and deposit growth is expected to continue during 2001 in all of the Bank's business lines.

## OTHER INCOME

*For the past five years, other income has grown at an average rate of 20% and now represents approximately 41% of the Bank's total revenues, compared to 37% in 1996.*

Other income was \$3.7 billion in 2000, an increase of 15% from the prior year. This substantial growth was the result of solid gains in all major categories.

Fees for deposit and payment services continued to grow at a steady pace as revenues rose by 4%, or 5% excluding the effect of securitizing part of the Bank's credit card portfolio. Greater customer usage led to revenue increases from commercial transaction services, ABMs and the Bank's newer electronic services, such as debit cards.

We had a very successful year in Wealth Management. Revenues from full-service and discount brokerage increased by 40% and 73% respectively, following record customer demand. Mutual fund fees rose by 14%, driven by higher volumes. As well, our leadership position in personal trust led to revenues increasing 10% from last year.

Credit fees were a record \$632 million in 2000, an increase of 16% from last year. The largest contributors to this growth were our syndicated loan businesses and our commercial lending operations in Canada.

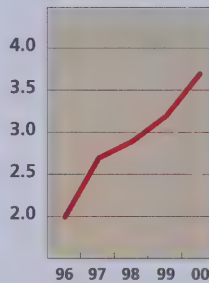
Revenues from investment banking were \$756 million, an increase of 7% from last year, with strong performances in securities trading and derivatives.

Gains on the sale of investment securities amounted to \$358 million in 2000, up \$15 million over 1999, as the Bank continued to take advantage of favourable equity markets.

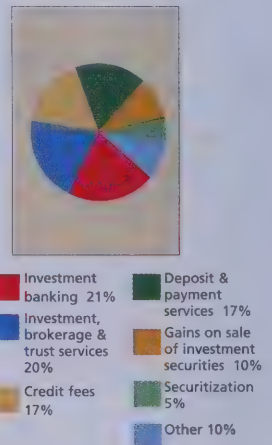
Securitization revenues rose by \$51 million or 33%, reflecting the full-year impact of securitizations completed throughout 1999, as well as additional securitizations undertaken in 2000.

The remaining categories increased \$126 million year over year, including \$61 million from the sale of the Bank's stock transfer business, and a \$21 million pre-tax gain relating to the sale of Solidbank in the Philippines.

**Substantial expansion in other income**  
excluding sales of businesses, \$ billions



**Many sources of other income**



## OUTLOOK

Other income in 2000 included substantial revenues from investment securities gains, and from the sale of Solidbank and our stock transfer business. While such high levels of revenue from similar sources are not anticipated in 2001, we expect good underlying growth in other income, based on relatively stable economic and market conditions.



**Table 3 Other income**

<i>For the fiscal years (\$ millions)</i>	2000	1999	1998	1997	1996	2000 versus 1999
<b>Deposit and payment services</b>						
Deposit services	\$ 433	\$ 402	\$ 372	\$ 317	\$ 289	8%
Card revenues	116	133	184	153	145	(13)
Other payment services	75	67	63	61	65	13
Subtotal	624	602	619	531	499	4
<b>Investment, brokerage and trust services</b>						
Retail and discount brokerage	389	273	286	289	211	42
Mutual funds	131	115	117	82	51	14
Investment management and custody	85	97	86	72	80	(12)
Personal and corporate trust	128	119	107	96	99	7
Subtotal	733	604	596	539	441	21
<b>Credit fees</b>						
Commitment/other credit fees	512	438	397	329	272	17
Acceptance fees	120	105	75	66	61	15
Subtotal	632	543	472	395	333	16
<b>Investment banking</b>						
Underwriting fees and other commissions	278	268	287	308	211	4
Trading revenue	326	291	100	141	170	12
Foreign exchange other than trading	152	147	125	109	97	4
Subtotal	756	706	512	558	478	7
<b>Net gain on investment securities</b>	358 <sup>(1)</sup>	343	322	366	129	4
<b>Securitization revenues</b>	206	155	38	—	—	33
<b>Other</b>	274	230	274	150	128	19
Total of above	3,583	3,183	2,833	2,539	2,008	13
<b>Gains on sale of businesses</b>	82 <sup>(1)</sup>	—	25	144	—	n/a
Total other income	\$ 3,665	\$ 3,183	\$ 2,858	\$ 2,683	\$ 2,008	15%
Percentage increase over previous year	15%	11%	7%	34%	34%	

(1) The pre-tax gain of \$21 million on sale of the Bank's investment in Solidbank is included in gains on sale of business, whereas in the Consolidated Statement of Income it is reported in the net gain on investment securities.

**Table 4 Trading revenue**

<i>Taxable equivalent basis</i>					
<i>For the fiscal years (\$ millions)</i>	2000	1999	1998	1997	1996
<b>Reported in other income</b>					
Securities trading	\$ 108	\$ 67	\$ (48)	\$ 52	\$ 98
Foreign exchange and precious metals trading	148	150	77	45	67
Derivative and other trading	70	74	71	44	5
Subtotal	326	291	100	141	170
<b>Reported in net interest income</b>	126	85	58	48	48
Total trading revenue	\$ 452	\$ 376	\$ 158	\$ 189	\$ 218
% of total revenues (net interest income plus other income)	5.0%	4.7%	2.1%	2.9%	4.0%

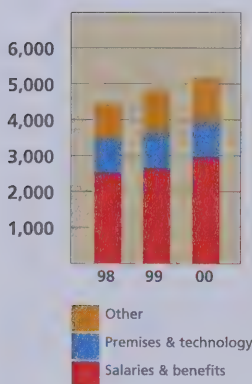
## NON-INTEREST EXPENSES AND PRODUCTIVITY

*Scotiabank's strong culture of cost management continues to drive improvements in productivity.*

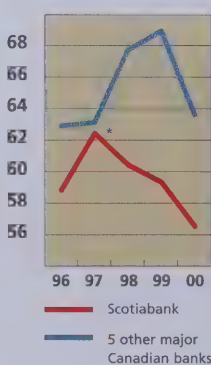
In comparison to the 13% growth in revenues, operating expenses increased 8% or \$363 million in 2000. Approximately \$100 million of the growth was due to the consolidation of BSA Chile this year. As well, there were provisions of \$33 million for the restructuring of our international branches, and writedowns of property and equipment of \$46 million. These were partially offset by the reversal of \$34 million of the National Trust restructuring provision, as the integration was substantially completed. Adjusting for these items, expenses grew 5% year over year.

Remuneration and benefits, comprising 58% of total expenses, were up \$317 million or 12% from the previous year, reflecting higher performance-based compensation and the consolidation of BSA Chile. Variable compensation in Scotia Capital and full-service brokerage services rose substantially, reflecting higher revenues in these businesses. Costs of other incentive programs were also higher, attributable to the rise in the Bank's ROE and share price. Excluding performance-related compensation, underlying personnel expenses were relatively flat compared to 1999, as expansion in the call centres, e-Scotia and Scotia Discount Brokerage mostly offset the ongoing productivity improvements in the domestic branches.

Expense composition  
\$ millions, October 31



Better productivity record  
non-interest expense as % of revenue (source: published financial data)



\* includes unusual expenses

Premises and technology costs declined \$12 million or 1% from last year, mainly due to the completion of several major projects, such as Y2K and Forms-Free Teller. Overall, we continued to invest in state-of-the-art technologies to leverage alternate and lower-cost delivery channels to improve customer service and introduce new products. Expenses were also incurred in building our data mining and sales capabilities.

Communication and marketing expenses grew \$21 million or 5% this year, in support of volume growth, business development and product initiatives.

The balance of the growth was mainly related to inflation, higher levels of business activity and the large items referred to earlier.

The accepted benchmark to measure efficiency in banking is the productivity ratio, which represents the expenses incurred to earn a dollar of revenue – the lower the ratio, the better the efficiency. Scotiabank's productivity ratio, at 56.5% in 2000, led the industry, consistent with prior years.

## OUTLOOK

Operating expenses are expected to grow moderately in 2001, in line with business growth. As well, the Bank will continue to invest in technology and new products. However, we are constantly evaluating opportunities to contain our costs, and we expect that the productivity ratio will remain below the Bank's target of 60%.

## TAXES

*Direct taxes to all levels of government continue to increase.*

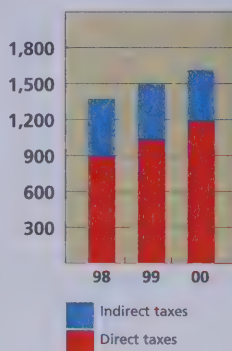
Taxes incurred by the Bank in 2000 totaled \$1.6 billion (taxable equivalent basis), up a substantial \$121 million from the prior year. These included direct taxes on income by Canadian federal and provincial governments and the governments of foreign jurisdictions in which the Bank operates, along with a variety of indirect taxes to which the Bank is subject. Banks continue to be one of the most heavily taxed business sectors in Canada. This results partly from the imposition of federal and provincial capital taxes, paid on our capital base.

The increase in taxes of \$121 million arose mainly from higher income taxes. However, the effective income tax rate declined to 33.2% in 2000 from 35.2% in the prior year, primarily due to higher earnings in our foreign subsidiaries that are taxed at lower rates.

Deposit insurance premiums assessed by the Canada Deposit Insurance Corporation were reduced by \$36 million to \$33 million in 2000.

Other indirect taxes, such as payroll taxes and business taxes, continued to increase. Total government levies and taxes of \$1.6 billion in 2000 represented approximately 45% of our pre-tax income.

Rising trend in direct and indirect taxes  
\$ millions



## OUTLOOK

With the rising levels of earnings in our foreign operations, together with reductions in Canadian tax rates, we anticipate that the effective tax rate will continue to decline in 2001.



**Table 5 Non-interest expenses**

<i>For the fiscal years (\$ millions)</i>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>2000 versus 1999</b>
<b>Salaries</b>	<b>\$2,594</b>	<b>\$ 2,297</b>	<b>\$ 2,193</b>	<b>\$ 1,973</b>	<b>\$ 1,702</b>	<b>13%</b>
<b>Benefits</b>	<b>350</b>	<b>330</b>	<b>308</b>	<b>229</b>	<b>208</b>	<b>6</b>
<b>Premises and technology</b>						
Occupancy costs	419	425	404	334	307	(2)
Technology	309	328	329	259	195	(6)
Depreciation	267	254	225	185	162	5
	995	1,007	958	778	664	(1)
<b>Other</b>						
Communications and marketing	428	407	366	320	272	5
Capital and business taxes, and deposit insurance premiums	176	206	238	192	174	(15)
Miscellaneous	610	529	383	291	217	15
	1,214	1,142	987	803	663	6
Total of above	5,153	4,776	4,446	3,783	3,237	8
<b>Restructuring provision – acquisitions</b>	<b>(34)</b>	<b>(20)</b>	<b>–</b>	<b>250</b>	<b>(20)</b>	<b>70</b>
<b>Writeoff of goodwill</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>26</b>	<b>–</b>	<b>n/a</b>
Total non-interest expenses	\$5,119	\$ 4,756	\$ 4,446	\$ 4,059	\$ 3,217	8%
Productivity ratio	56.5%	59.3%	60.4%	62.4%	58.8%	

**Table 6 Income and other taxes**

<i>For the fiscal years (\$ millions)</i>	<b>2000</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>2000 versus 1999</b>
<b>Income taxes</b>						
Provision for income taxes	\$ 990	\$ 867	\$ 762	\$ 758	\$ 665	14%
Taxable equivalent adjustment	194	163	129	103	105	19
Taxable equivalent provision	1,184	1,030	891	861	770	15
<b>Other taxes</b>						
Payroll taxes	146	143	133	107	98	2
Property taxes	55	61	55	33	34	(10)
Capital taxes	93	91	97	81	68	2
Business taxes	50	46	43	36	37	9
Goods and services tax	52	52	54	48	38	–
Deposit insurance premiums	33	69	98	75	69	(52)
Total indirect taxes	429	462	480	380	344	(7)
Total taxes	\$1,613 <sup>(1)</sup>	\$ 1,492 <sup>(1)</sup>	\$ 1,371 <sup>(1)</sup>	\$ 1,241	\$ 1,114	8%

(1) Amount is comprised of \$1,175 million of Canadian taxes (1999 – \$1,017 million; 1998 – \$940 million) and \$438 million of foreign taxes (1999 – \$475 million; 1998 – \$431 million).

## CREDIT QUALITY

### Impaired loans

As at October 31, 2000, the allowance for credit losses exceeded gross impaired loans, resulting in negative net impaired loans of \$61 million. This represented a modest increase of \$95 million in net impaired loans since last year end.

As shown in the chart below, net impaired loans as a percentage of loans and acceptances are now at -0.03%. This percentage remains close to the lowest level achieved over the past decade.

Gross impaired loans were \$2.8 billion at year end, \$360 million higher than a year ago.

In Canada, economic conditions remained buoyant throughout the year. As a result, the condition of both the Domestic Banking retail and commercial portfolios improved, with a total decline of \$115 million in gross impaired loans and mortgages over the year.

In the United States, there was a weakening in credit conditions. As a result, gross impaired loans rose by \$171 million to \$865 million at year end.

In International Banking, gross impaired loans were \$1,100 million as at October 31, 2000, an increase of \$283 million. Of this increase, \$97 million was from the first-time consolidation of BSA Chile's gross impaired loans. The remaining increase related primarily to a few accounts that are well secured.

### Specific provisions for credit losses

In fiscal 2000, specific provisions for credit losses were \$765 million, compared with \$485 million last year.

Credit quality in our retail and commercial lending in Canada was excellent. In 2000, provisions for credit losses on this portfolio were \$168 million, a substantial improvement over \$234 million in the prior year and a continuation of the downward trend experienced over the past few years.

Within International Banking, there was an increase in provisions in the Caribbean of \$28 million, mostly associated with the significant growth in this portfolio in recent years. The Asian loan portfolio remained stable in 2000, with a normal level of provisions. In Latin America, there was an increase in provisions, reflecting the inclusion of \$18 million for credit losses at BSA Chile, whose results were consolidated beginning this year.

In the Bank's wholesale lending operation within Scotia Capital, provisions for credit losses rose by \$276 million over the prior year. In Canada, provisions returned to normal levels in 2000, as we had substantial recoveries on a number of accounts in 1999. The remaining growth was mostly in the U.S. portfolio, as provisions were increased following softening credit conditions, consistent with market trends.

### General provision

During 2000, the general provision for credit losses remained at \$1.3 billion, amounting to 0.83% of risk-weighted assets at year end. The impact on the general provision of weakening credit conditions in the U.S. was offset by the elimination of concerns relating to Y2K.

Net impaired loan ratio near historic lows  
as a % of loans & acceptances  
as at October 31



Low credit losses  
specific provisions as a % of  
average loan & acceptances



Sizeable general provision  
\$ millions, October 31



### OUTLOOK

The Bank expects moderately higher specific provisions for credit losses in 2001.



**Table 7 Impaired loans by business line<sup>(1)(3)</sup>**

As at October 31 (\$ millions)	2000			1999	1998	1997	1996
	Net	Allowance for credit losses <sup>(2)</sup>	Gross				
<b>Domestic</b>							
Retail	\$ 102	\$ 168	\$ 270	\$ 332	\$ 356	\$ 436	\$ 320
Commercial	162	181	343	396	534	493	442
Subtotal	264	349	613	728	890	929	762
<b>International<sup>(2)</sup></b>	452	648	1,100	817	776	534	358
<b>Scotia Capital</b>							
Canada	61	50	111	127	247	270	445
United States and other	462	479	941	733	403	460	589
Subtotal	523	529	1,052	860	650	730	1,034
Gross impaired loans			2,765	2,405	2,316	2,193	2,154
Allowance for credit losses							
– specific and country risk provisions <sup>(2)</sup>		(1,526)		(1,261)	(1,295)	(1,100)	(1,086)
– general provision	(1,300)	(1,300)		(1,300)	(600)	(500)	(325)
Subtotal	(1,300)	(2,826)		(2,561)	(1,895)	(1,600)	(1,411)
Total net impaired loans	\$ (61)			\$ (156)	\$ 421	\$ 593	\$ 743
Total net impaired loans as a % of loans and acceptances	(0.03)%			(0.10)%	0.26%	0.44%	0.67%
Allowance for credit losses as a % of gross impaired loans		102%		107%	82%	73%	66%

(1) Fully secured past due loans, where payments of interest or principal are contractually 90 to 180 days in arrears, are not classified as impaired. These amounted to \$3 million at October 31, 2000 (1999 – \$66 million; 1998 – \$21 million; 1997 – \$2 million; 1996 – \$12 million).

(2) Includes designated emerging market gross impaired loans and offsetting country risk provision of \$24 million at October 31, 2000 (1999 – \$25 million; 1998 – \$25 million; 1997 – \$56 million; 1996 – \$133 million).

(3) Interest recorded as income on impaired loans was \$62 million (1999 – \$28 million; 1998 – \$29 million; 1997 – \$27 million). This amount related to the international portfolios.

**Table 8 Provisions for credit losses**

For the fiscal years (\$ millions)	2000	1999	1998	1997	1996
<b>Specific provisions for credit losses</b>					
Net specific provisions	\$ 878	\$ 623	\$ 552	\$ 430	\$ 418
Recoveries	(113)	(138)	(57)	(70)	(38)
Net specific provisions for credit losses	765	485	495	360	380
<b>Other provisions</b>					
General provision	–	150 <sup>(1)</sup>	100	175	–
Country risk provision	–	–	–	(500)	–
Net provisions for credit losses	\$ 765	\$ 635	\$ 595	\$ 35	\$ 380

(1) Refer to Note 22 of the Consolidated Financial Statements.

## CAPITAL MANAGEMENT

*Scotiabank has always maintained a solid capital base – and this was further strengthened in 2000.*

Scotiabank's strong capital base contributes to its undoubted safety, supports its high credit rating and enables it to take advantage of growth opportunities – while still allowing shareholders to earn excellent returns.

Capital is a critical resource and is actively managed by the Bank. The capital management processes take into account balance sheet and risk-adjusted assets, capital mix and costs, investment plans and shareholder returns, while satisfying the requirements of other constituents, including regulators, rating agencies, financial markets and depositors.

### THE COMPONENTS OF CAPITAL

Capital adequacy for Canadian banks is governed by the requirements of the Office of the Superintendent of Financial Institutions (OSFI). These requirements are consistent with international standards set by the Bank for International Settlements (BIS). Under these standards, bank regulatory capital consists of two components – Tier 1 capital and Tier 2 capital. Tier 1 capital consists primarily of common shareholders' equity and non-cumulative preferred shares. Tier 2 capital consists mainly of subordinated debentures or cumulative preferred shares and general provisions. Both components provide important support for banking operations – and protection for depositors – however, Tier 1 capital is the principal focus of the markets and regulators.

In 2000, total regulatory capital rose by more than \$2.1 billion to \$19.0 billion. Growth in Tier 1 capital accounted for 91% or \$1.9 billion of this increase. Of this, \$1.5 billion came from higher retained earnings arising from the strong growth in our net income. In fact, over the past five years, \$4.7 billion in capital has been internally generated through record levels of net income and subsequent additions to retained earnings.

In order to grow the capital base in a cost-effective manner, Scotiabank has been active in the development of innovative capital instruments that meet OSFI's requirements for Tier 1 capital. In 2000, the Bank issued \$500 million of Scotiabank Trust Securities (BaTS), which also contributed to the growth in Tier 1 capital.

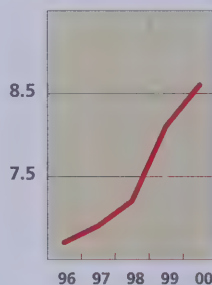
Tier 2 capital decreased slightly, mainly due to higher amortization of subordinated debentures. Deductions from capital for associated corporations were substantially lower at year end, following the sale of certain investments. As well, the Bank took advantage of market opportunities to repurchase some of its debentures during the year.

## CAPITAL RATIOS

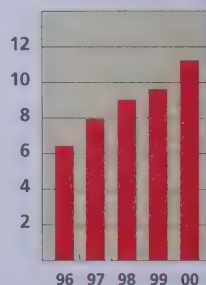
Capital adequacy is measured by ratios that are calculated by dividing the components of capital by risk-adjusted assets. Successful capital management requires active management of both risk-adjusted assets and the capital base.

Scotiabank's Tier 1 ratio rose substantially to 8.6% at October 31, 2000, an increase of 50 basis points from the previous year. The total capital ratio grew by 30 basis points to 12.2%. Both ratios are well in excess of levels defined by OSFI as "well-capitalized" – 10% for total capital and 7% for Tier 1 capital.

Strengthening Tier 1  
capital ratio...  
% October 31



...driven by growth in  
common equity  
\$ billions, October 31



These stronger capital ratios resulted from higher capital levels and from close attention to managing the growth in risk-adjusted assets. During the year, a \$1.3 billion ScotiaLine loan portfolio was securitized in Canada. As well, other actions to reduce risk-adjusted assets were actively pursued.

### OUTLOOK

The Bank's capital ratios are expected to remain strong and well in excess of regulatory requirements.



**Table 9 Regulatory capital**

<i>As at October 31 (\$ millions)</i>	<b>2000</b>	1999	1998	1997	1996
<b>Tier 1 capital</b>					
Common shareholders' equity	<b>\$ 11,200</b>	\$ 9,631	\$ 9,039	\$ 7,930	\$ 6,424
Non-cumulative preferred shares	<b>1,775</b>	1,775	1,775	1,468	1,325
Non-controlling interest in subsidiaries <sup>(1)</sup>	<b>729</b>	198	173	137	101
Less: Goodwill	<b>(297)</b>	(138)	(148)	(123)	(11)
Subtotal	<b>13,407</b>	11,466	10,839	9,412	7,839
<b>Tier 2 capital</b>					
Subordinated debentures (net of amortization)	<b>4,990</b>	5,114	5,139	4,616	2,851
Eligible amount of general provision <sup>(2)</sup>	<b>1,171</b>	1,067	600	500	—
Subtotal	<b>6,161</b>	6,181	5,739	5,116	2,851
Less: Investments in associated corporations and other items	<b>(539)</b>	(742)	(575)	(323)	(318)
<b>Total capital</b>	<b>\$ 19,029</b>	\$ 16,905	\$ 16,003	\$ 14,205	\$ 10,372
Total risk-adjusted assets (\$ billions)	<b>\$ 156.1</b>	\$ 142.3	\$ 150.8	\$ 136.4	\$ 117.2
<b>Capital ratios</b>					
Tier 1 capital ratio	<b>8.6%</b>	8.1%	7.2%	6.9%	6.7%
Total capital ratio	<b>12.2%</b>	11.9%	10.6%	10.4%	8.9%

(1) Includes Scotiabank Trust Securities (BaTS), an innovative capital instrument.

(2) Under OSFI guidelines, general provisions can be included in Tier 2 capital up to a maximum of 0.75% of risk-adjusted assets.

**Table 10 Capital generation**

<i>For the fiscal years (\$ millions)</i>	<b>2000</b>	1999	1998	1997	1996
<b>Internally generated capital</b>					
Net income	<b>\$ 1,926</b>	\$ 1,551 <sup>(1)</sup>	\$ 1,394	\$ 1,514	\$ 1,069
Other amounts credited/(charged) to retained earnings	<b>160</b>	(475) <sup>(1)</sup>	147	40	(139)
Capital from operations	<b>2,086</b>	1,076	1,541	1,554	930
Dividends	<b>(604)</b>	(537)	(490)	(454)	(418)
	<b>1,482</b>	539	1,051	1,100	512
<b>External financing</b>					
Subordinated indebtedness	<b>(124)</b>	(25)	523	1,765	(188)
Preferred shares	<b>—</b>	—	307	(107)	(299)
Innovative Tier 1 Capital instruments <sup>(2)</sup>	<b>500</b>	—	—	250	—
Common shares	<b>87</b>	53	58	406	167
	<b>463</b>	28	888	2,314	(320)
<b>Other<sup>(3)</sup></b>	<b>179</b>	335	(141)	419	(9)
<b>Total capital generated</b>	<b>2,124</b>	902	1,798	3,833	183
<b>Total capital, beginning of year</b>	<b>16,905</b>	16,003	14,205	10,372	10,189
<b>Total capital, end of year</b>	<b>\$ 19,029</b>	\$ 16,905	\$ 16,003	\$ 14,205	\$ 10,372

(1) Refer to Note 22 of the Consolidated Financial Statements.

(2) Innovative Tier 1 capital instruments issued through BNS Capital Trust (Scotia BaTS) and Scotia Mortgage Investment Corporation.

(3) Represents eligible general provisions and adjustments to regulatory capital such as inclusion of non-controlling interest in subsidiaries, less deductions for goodwill, securitization-related amounts and investments in associated corporations.

## HIGHLIGHTS



- Maintained #1 ranking among Canadian banks for overall customer service. *(based on data from Market Facts of Canada Limited)*
- Implemented an industry-leading retail credit scoring methodology that allows unique "global" credit limits to be offered to customers, and provides a more powerful risk assessment capability.
- Growth in our Scotia Total Equity™ Plan lending package far exceeded expectations during the year.
- Enhanced customer relationship management capabilities resulted in significant improvements in response and renewal rates on products and services such as mortgages, GICs and ScotiaLine VISA.
- Launched ScotiaLine VISA cards for small business, an innovative borrowing solution that combines a line of credit with VISA card access.
- Negotiated exclusive agreements to provide financial services to the combined memberships of three high-profile business associations – the Canadian Federation of Independent Business, the Canadian Professional Sales Association and the Retail Council of Canada.

"The sales and service initiatives in our branches – shifting our focus towards sales and building multi-product relationships with our customers, and moving away from transaction processing and general management – are the biggest changes I've seen in more than 30 years with the Bank." – John Young, Executive Vice-President, Domestic Branch Banking.

## RETAIL BANKING

Retail Banking had record results this year, building on its core strengths – a strong customer orientation, a proven ability to deliver value-added products and services, and a relentless focus on managing costs.

Recognizing that Canadians and Scotiabank customers want greater choice when they do their banking, we continue to add functionality to our branches, call centres, ABMs and online banking. We made a number of significant changes to our branch network during the year, revising sales and service processes and installing a sophisticated new contact management and sales tracking system. These sales initiatives, along with a comprehensive training program and a reorganized employee structure, have enabled our frontline staff to deliver a significantly improved experience for our customers.

Similar investments in our call centres allow staff to be more proactive with customers, identifying their potential needs through inbound and outbound calls and, increasingly, closing the sale during the call.

We continue to create new, customer-focused products and services, capitalizing on the success of previous efforts. These products respond to our customers' needs for flexibility, convenience and relevance. For example:

- growth in our Scotia Total Equity™ Plan (STEP), a convenient, all-in-one lending package available to eligible homeowners, was more than double expectations during the year;
- our ScotiaLine VISA product, which combines the flexibility of a line of credit with the convenience of a credit card, has seen significant growth in balances since its introduction in late 1999;
- our family of industry-leading stock-indexed GICs continues to grow, with the addition of a U.S. market product, which links returns to the S&P 500 index; and
- our new iCAN Financial Plan allows staff to assist customers in assessing their current financial situation, and work with them to put an action plan in place.

Our investment in customer relationship management tools allows us to be much more targeted in our dealings with customers, improving the productivity of our sales and marketing resources. We use our customer database to develop focused sales and marketing campaigns, and automated assessment software lets us quickly track customer response. This targeted approach results in substantially higher response rates to our campaigns.

We are enhancing the productivity of our branch network through several initiatives, such as the sale of 43 branches in rural Quebec to Laurentian Bank, the pilot program with Canada Post in Newfoundland to deliver basic banking services via local post offices, and the successful implementation of programs begun in earlier years, including Forms Free Teller.

## COMMERCIAL AND SMALL BUSINESS BANKING

Our focus in small business banking has been to introduce innovative and easily accessible products and services to help entrepreneurs save time in managing their businesses.

We introduced the ScotiaLine VISA for business, extended the Scotia Total Equity™ Plan to include business loans, and launched the revolutionary ScotiaWeb store to allow small businesses to quickly establish a presence and begin selling on the Internet. We also piloted a Small Business Resource Centre, which offers timely advice and information to help entrepreneurs make everyday business decisions, and helps improve the delivery of products through various electronic delivery channels.



We improved our underwriting and back office efficiency by establishing a small business loan centre in Toronto Region, with plans to expand across Canada next year. This centre is staffed with lending professionals who are focused solely on small business customers, handling loans up to \$250,000. By combining the responsibility for underwriting, document preparation, document processing and collections, we can streamline procedures and provide better support to the branch network – and to our customers.

Our focus in the mid-market commercial banking area continues to be on the acquisition of profitable, high-quality accounts across a variety of industries. Portfolio profitability, rather than asset growth, continues to be our prime objective. Using updated analytical tools, our account managers concentrate on broadening the scope of the customer relationship and addressing the full spectrum of customer needs, rather than simply selling individual products and services. They are also cross-selling trade finance and capital markets products and expertise.

Our subsidiary, RoyNat, the leading private sector term investor for small and medium-sized businesses, had another strong year. During the year, we established a venture capital arm, RoyNat Ventures, to invest in the high-tech sector.

## FINANCIAL PERFORMANCE (INCLUDING WEALTH MANAGEMENT)

Net income for Domestic Banking was \$882 million in 2000, an increase of \$233 million or 36% from last year. These earnings represented 46% of the Bank's total net income.

Revenues grew by 9% to \$4.6 billion, driven by growth in fee income – largely in Wealth Management – a higher interest margin and growth in assets. We generated strong growth from our innovative STEP program and ScotiaLine VISA. All sales channels contributed to this growth, including the branch network, with an increasing proportion from the call centres and Internet services.

The Commercial division also had a very successful year, notwithstanding the transfer of some accounts to Scotia Capital in recognition of the specialized needs of these customers. Of particular note was the strong growth in business deposits, which rose by 11%, a continuation of the upward trend of the past several years.

Other income rose a substantial \$234 million or 16%, with exceptional growth in brokerage revenues, mutual fund commissions and steady increases in deposit and payment services. The sale of the stock transfer business generated \$61 million.

The provision for credit losses improved in both the commercial and retail portfolios, falling by a substantial \$59 million to \$210 million in 2000.

Expense growth of 2.4% in 2000 mainly reflected higher performance-based compensation and investments in a number of key business initiatives. Ongoing productivity improvements resulted in lower staffing levels, which were managed primarily through attrition.

## OUTLOOK

We expect steady growth in our retail and commercial businesses. Our sales and service focus will continue to emphasize building deeper customer relationships, which will drive asset, deposit and revenue growth. We will be restructuring the branch support functions, emphasizing sales support and centralizing some administrative functions into a common shared services unit. As well, we will continue our relentless focus on managing costs and improving productivity.

### Total revenue

Retail  
\$ millions



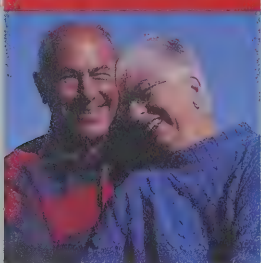
Commercial  
\$ millions



### Financial performance, Domestic Banking

\$ millions	2000	1999	1998
Net interest income	\$ 2,932	\$ 2,778	\$ 2,800
Other income	1,706	1,472	1,354
Provision for credit losses	(210)	(269)	(303)
Non-interest expenses	(2,972)	(2,903)	(2,771)
Income taxes	(574)	(429)	(439)
Net income	\$ 882	\$ 649	\$ 641
Average earning assets (\$ billions)	89	86	80
Productivity ratio (%)	64.1	68.3	66.7
Staffing	23,299	24,886	25,914
Number of branches	1,131	1,178	1,274
Number of ABMs	2,136	2,021	2,002

## HIGHLIGHTS



- Launched i:PARTNER, a new fee-based retail brokerage account that combines the best aspects of a full-service advisory relationship with online trading, research and other services.
- Increased fee-based assets under administration in retail brokerage by 97%.
- Improved service levels in discount brokerage by substantially increasing trading capacity and more than doubling the number of customer service and trading staff.
- Added new online features to the discount brokerage platform, including improved Web navigation and account access, online statements, market data and research capabilities.
- Scotia Latin American Fund named the world's top performing Latin fund over the past five years.
- Entered into alliance with Capital International Asset Management to provide portfolio management for a new series of U.S. and international mutual funds.
- Introduced four Scotia Partners Portfolios, featuring 14 new third-party funds.
- Increased new business in personal trust by 38% over the prior year.

Wealth Management had record revenues this year, driven by the strong performance of our retail brokerage division. We made substantial progress on a number of strategic, operational and new product initiatives to strengthen our three major businesses and integrate our operations more closely with Retail Banking.

## RETAIL BROKERAGE

Our retail brokerage division experienced impressive growth, resulting in a record year, with assets under administration reaching new highs of \$46.5 billion.

At ScotiaMcLeod, our full-service brokerage operation, we continue to emphasize fee-based business. Collectively, our fee-based programs – Summit, Pinnacle and Partnership Plus – grew 97% over the prior year, and now account for \$3.0 billion in assets under administration. Most important, we launched i:PARTNER, an innovative new fee-based product. The first of its kind in Canada, i:PARTNER combines the service and expertise of a full-service advisory relationship, with the world of online trading, research, market data, account information and banking services.

ScotiaMcLeod also implemented new automated order entry and price management systems, which will substantially reduce overall trade costs and improve operating efficiencies.

Continued strength in the equity markets led to explosive growth in trading volumes in our discount brokerage, including a threefold increase in online trading over the Internet. To sustain this growth, we substantially increased capacity and more than doubled the number of customer service and trading representatives. We also revamped our discount brokerage operations processes and administrative functions, integrating them with resources in ScotiaMcLeod and the Bank's call centres, using our existing infrastructure to improve efficiencies and customer service.

We made substantial progress toward meeting the growing demand for the seamless connection of bank and brokerage accounts. We also added a number of new online services and made our Web site easier to navigate and use.

## MUTUAL FUNDS

Scotia Mutual Funds surpassed \$10 billion in assets, supported by several initiatives to add new funds and effectively leverage the Bank's extensive distribution networks. As well, we continued to see an improvement in fund performance, with 74% of our funds outperforming the industry average on a one-year basis.

We introduced Scotia Partners Portfolios, facilitating the sale of 14 third-party funds in four new mutual fund portfolios, in order to meet different customer investment objectives and risk tolerances. We are also launching 12 new funds, including "clone" funds for RRSP eligibility, providing a more comprehensive suite of domestic and international offerings. Included in these offerings is the Scotia Young Investors Fund – a unique global equity fund that invests in companies that influence the lives of children.

We entered into an alliance with Capital International Asset Management, one of the world's leading research and asset management organizations. This alliance will significantly broaden our product offering, initially adding 10 funds in the new Scotia Mutual Funds Capital International Series. Capital International has proven strength in the U.S. and global marketplace, managing approximately \$800 billion in assets for 11 million clients worldwide. This alliance complements the strength of Scotia Cassels and our other fund managers in the domestic market.

Recognizing the importance of the branch network in distributing funds, we are rebuilding the branch sales platform to improve the mutual funds sales process, and adding product distribution specialists to support the branches in selling mutual funds and other investments.



## TRUST, INVESTMENT MANAGEMENT AND PRIVATE BANKING

We are expanding our trust, investment management and private banking businesses. In August, we launched 11 pooled funds, which provide our personal clients with additional choice and opportunities for investment diversification. We also restructured our Investment Management Accounts to align the features, benefits and pricing for all discretionary money management clients.

Significant efforts are under way to streamline and upgrade our systems, integrating the Scotiabank and Scotia Cassels platforms to enhance operating efficiencies and provide clients with more comprehensive performance reporting and clearer account statements. We are also aligning the delivery channels of Scotiabank, Scotia Cassels and Private Banking, building on the inherent strengths of each to provide a more uniform level of service and support to our affluent clients.

## FINANCIAL INFORMATION

In 2000, Wealth Management generated a record \$858 million in revenues, up 29% from the previous year. (These revenues are included in the financial results of Domestic Banking.) Our businesses benefited from very favourable market conditions and higher trading volumes, especially during the first half of the year, accompanied by substantial growth in client assets.

All areas within Wealth Management contributed to the excellent results. Our retail brokerage revenues rose to a record \$538 million, representing a year-over-year improvement of 43%. There was sharply higher activity in all our brokerage channels – full-service, discount and online. Mutual fund fees also showed significant growth, led by the strong performance of our equity funds, and by a 47% increase in Asset Allocation accounts. As well, trust, investment management and private banking revenues all rose, including a 38% increase in new business in personal trust.

Assets under administration grew to \$97 billion at the end of the year, up 18% from 1999, with double-digit growth in all major business areas – full-service brokerage, discount brokerage, mutual funds and personal trust.

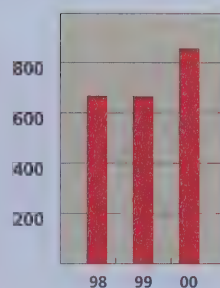
In Scotia Cassels – the second-largest provider of private client investment management services in Canada – assets under management rose by more than 14% to \$19 billion.

## OUTLOOK

We are projecting continued revenue growth in Wealth Management. Our retail brokerage division will be a key contributor, with continued emphasis on disciplined pricing and building our fee-based business. Mutual fund sales will benefit substantially from an enhanced domestic and global fund lineup, and an increased focus on maximizing distribution capabilities. In trust, investment management and private banking, we are creating teams of professionals to seamlessly deliver our comprehensive suite of services to high net worth clients.

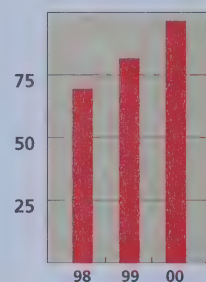
Total revenue

\$ millions



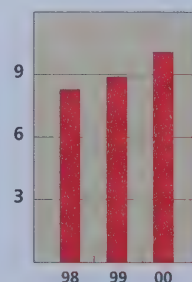
Assets under administration

\$ billions



Mutual fund assets

\$ billions



## Financial information, Wealth Management

\$ millions	2000	1999	1998
<b>Total revenue</b>			
Full-service and discount brokerage	\$ 538	\$ 377	\$ 394
Mutual funds	116	105	100
Trust and private banking	124	116	111
Investment management/other	80	69	64
	<b>\$ 858</b>	<b>\$ 667</b>	<b>\$ 669</b>
 Assets under administration <sup>(1)</sup>	 96,647	 81,627	 69,528
Assets under management <sup>(1)</sup>	18,539	16,232	13,535
Staffing	2,833	2,526	2,429
Number of investment executives	791	789	776

(1) September 30

## HIGHLIGHTS

- Awarded the *Investment Dealer Digest* Project Finance Deal of the Year for Calpine Construction Finance Corporation.
- Lead arranger for the TrizecHahn Hollywood Hotel, the first hotel development to be syndicated in the market in almost two years.
- Top 10 in U.S. syndicated lending. Source: *Loan Pricing Corporation*
- Scotia Capital Europe arranged a US\$1.1 billion series of securitizations to fund shipbuilding contracts in Finland.
- Number one Canadian bank for both currency research and trading strategies. Source: *Euromoney*
- 10 Canadian All Star equity analysts, with a #1 or #2 ranking. Source: *Brendan Wood*
- Tied for first in Canada in quality of equity research. Source: *Brendan Wood*
- Number one Canadian corporate bond trading desk by volume. Source: *Investment Dealers Association of Canada*
- Number one in Canada for market penetration in medium-term note programs. Source: *SEDAR*
- Led the largest medium-term note issue in Canadian history, a five-year, \$750 million note for Daimler Chrysler.

Scotia Capital was created in November 1999, integrating the corporate lending and capital markets groups to offer clients one-stop shopping for all their financing needs. During its first fiscal year, Scotia Capital had a number of notable successes, where we provided a tailored menu of financial products and services to meet our clients' needs. Going forward, we expect to continue to reap the benefits of the integration as we enhance our ability to serve our large corporate, institutional and government clients.

## CANADA

In Canada, Scotia Capital has been organized around three key units – Canadian Relationship Management, Canadian Capital Structuring and Global Trading.

The Canadian Relationship Management (CRM) group provides full product coverage to a select group of large clients who have complex, multi-product needs. CRM is organized into nine industry sectors. Relationship managers with industry expertise act as financial advisors to their clients within each sector.

Canadian Capital Structuring (CCS) provides expertise in lending, corporate finance, specialized finance, mergers and acquisitions, institutional equities and equity capital markets. Professionals within the unit also support clients with single product needs. Global Trading provides a wide range of capital markets products to clients in Canada and globally.

The success of our integrated approach to relationship management in the Canadian division was reflected in our results. We advised some of Canada's leading companies on a number of notable transactions during the year, including:

- leading the \$1.15 billion Rogers Communications Inc. deal and creating a unique product – the Term-Extendible Preferred Security;
- co-executing the largest equity forward contract in Canadian history, thereby allowing BCE to hedge \$4.2 billion of its stake in Nortel Networks;
- co-leading the \$1 billion initial public debt offering of Hydro One Inc.;
- co-leading the CanWest Global Communications Corp. acquisition financing of \$1.3 billion; and
- acting as sole underwriter and arranger of the Alberta Energy Corporation acquisition financing of \$1 billion.

Our success in syndicated lending also continued, with a second-place ranking in Canadian agent and agent/co-agent mandates.

## UNITED STATES

In the U.S., Scotia Capital continues to lead the Canadian banks in the highly competitive syndicated lending market, maintaining our top 10 standing on an agent/co-agent basis again this year. U.S. relationship managers cover a broad range of clients and industries.

Continued growth in our securitization and leasing business has been very encouraging. As well, the U.S. offices have been particularly active and successful in cross-selling a variety of products, including medium-term notes, commercial paper, high-yield debt, cash management, foreign exchange, derivatives and, through ScotiaMocatta, precious and base metal products, to our clients in the U.S., international and Canadian markets. Recognizing the global nature of the energy sector, we established a cross-border mergers and acquisitions group to better serve clients in this industry.

Continued emphasis has been placed on enhancing our risk-adjusted return on equity, through disciplined pricing and capital allocation, broadening of fee-based revenues and active balance sheet management. With softening credit conditions, the Bank is rigorously managing credit quality.



## EUROPE

Scotia Capital Europe is primarily a lender in the syndicated loan market. Our relationship managers concentrate on opportunities in Western Europe, utilizing the model so successfully employed in the U.S.

A new acquisition finance group based in London is aggressively covering companies in the U.K. and on the Continent, to capitalize on opportunities resulting from merger and acquisition activity. As in the U.S., our new integrated structure has helped us market a broader range of products to customers.

## GLOBAL TRADING

Global Trading, which incorporates Scotia Capital's fixed income, derivatives, foreign exchange, precious and base metals and money market activities, continued to have great success. Through innovative products, the group played a pivotal role in a number of large transactions during the year, including the Rogers Communications financing, the BCE equity forward contract and hedging the CanWest Global acquisition financing. In addition, initiatives to centralize operational support resulted in improved profitability and enhanced risk management.

Global Trading is an innovator in e-commerce, launching both ScotiaFX and ScotiaLive. ScotiaFX is an Internet-based trading application that allows corporate, institutional and commercial clients to execute, settle and monitor foreign exchange trades rapidly from their computer terminals. ScotiaLive provides online access to comprehensive information about new Canadian debt issues, along with online methods for registering expressions of interest.

## FINANCIAL PERFORMANCE

Scotia Capital earned \$650 million in 2000, a decrease of 13% from the prior year. While higher revenues were earned in most businesses, softening credit conditions in the U.S. resulted in increased loan loss provisions.

Canadian Capital Structuring contributed almost half of this year's earnings. Lending operations recorded a substantial increase in interest and fee revenues, in line with asset growth; however, this was more than offset by a return to more normal levels of loan loss provisions, following significant recoveries in 1999. Institutional Equity's earnings rose 43% this year, with volatile markets and high trading volumes driving a record year for both commission and trading revenues.

While we achieved record levels of loan origination fees and higher interest spreads, the performance of lending operations in the U.S. and Europe was reduced by higher loan loss provisions.

Global Trading reported record earnings in 2000, built on strong performances in virtually all areas. The Capital Markets Group, which includes derivatives and fixed income, reported its fourth consecutive year of record earnings, built on growth in client business and several innovative transactions. Foreign exchange had another solid year, with volatility in the major currencies and strong client flows providing good trading opportunities.

## OUTLOOK

We expect continued growth in revenues in Scotia Capital in 2001 from higher assets, fee income and trading revenues. Moderately higher loan losses are expected, arising primarily from weaker credit conditions in the U.S. market.

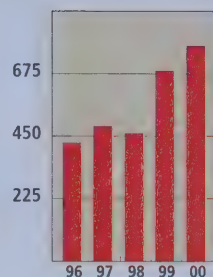
### Financial performance, Scotia Capital

\$ millions	2000	1999 <sup>(1)</sup>	1998
Net interest income	\$ 1,385	\$ 1,200	\$ 859
Other income	1,001	974	840
Provision for credit losses	(412)	(136)	(44)
Non-interest expenses	(909)	(796)	(858)
Income taxes	(415)	(497)	(314)
Net income	\$ 650	\$ 745	\$ 483
Average earning assets (\$ billions)	101	97	89
Productivity ratio (%)	38.1	36.6	50.5
Staffing	1,526	1,577	1,610

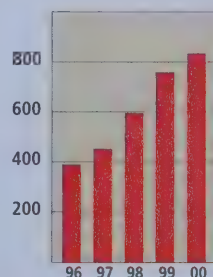
(1) Excludes Corporate Services

### Total revenue

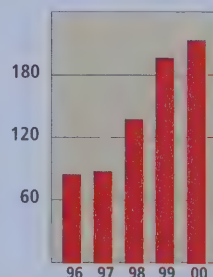
Canada  
\$ millions



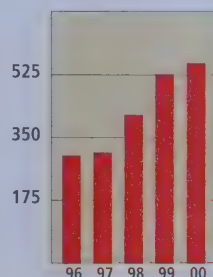
U.S.  
\$ millions



Europe  
\$ millions



Global Trading  
\$ millions



# INTERNATIONAL

International Banking had another excellent year, with strong growth and record profitability. We have made significant investments over the past four years – in people, processes and technology – in markets where we expect above-average economic growth and increasing use of banking products and services. New sales and service improvement initiatives, electronic banking services and system platforms are being leveraged to rapidly grow revenues while continuing to contain costs.

## Caribbean & Central America – 25 countries



<b>Jamaica</b>	BNS Jamaica (Ownership: 70%)	
• <b>Trinidad and Tobago</b>	Scotiabank Trinidad and Tobago (Ownership: 47%)	
• <b>Costa Rica</b>	Scotiabank de Costa Rica (Ownership: 80%)	
• <b>El Salvador</b>	Ahorromet Scotiabank (Ownership: 81%)	
• <b>Netherlands Antilles</b>	Maduro & Curiel's Bank (Ownership: 49%)	
• <b>Anguilla</b>	• <b>Antigua</b>	• <b>Bahamas</b>
• <b>Barbados</b>	• <b>Belize</b>	• <b>British Virgin Islands</b>
• <b>Cayman Islands</b>	• <b>Dominica</b>	• <b>Dominican Republic</b>
• <b>Grenada</b>	• <b>Guyana</b>	• <b>Haiti</b>
• <b>Panama</b>	• <b>Puerto Rico</b>	• <b>St. Kitts</b>
• <b>St. Lucia</b>	• <b>St. Maarten</b>	• <b>St. Vincent</b>
• <b>Turks &amp; Caicos</b>	• <b>U.S. Virgin Islands</b>	

## Latin America – 6 countries



• <b>Mexico</b>	Grupo Financiero Inverlat (Ownership: 10%; 55% at November 30, 2000)
• <b>Argentina</b>	Scotiabank Quilmes (Ownership: 100%)
• <b>Chile</b>	Banco Sud Americano (Ownership: 88%; 98% at November 30, 2000)
• <b>Peru</b>	Banco Sudamericano (Ownership: 30%)
• <b>Venezuela</b>	Banco del Caribe (Ownership: 27%)
• <b>Brazil</b>	Representative office

## Asia – 9 countries



• <b>India</b>	5 branches and Scotiafinance (Ownership: 75%)	
• <b>Malaysia</b>	Bank of Nova Scotia Berhad (Ownership: 100%)	
• <b>China</b>	• <b>Hong Kong</b>	• <b>Japan</b>
• <b>Singapore</b>	• <b>South Korea</b>	• <b>Taiwan</b>
• <b>Thailand</b>	• <b>Vietnam</b>	

In total, through its various business lines, the Scotiabank Group operates in more than 50 countries worldwide.



## CARIBBEAN & CENTRAL AMERICA

Our operations in the Caribbean & Central America (CCA) region posted very strong earnings again this year. We continued to grow market share and maintained our dominant position in the region.

We developed new management information systems to increase our understanding of customer behaviour and profitability. Using these capabilities, we introduced a number of sales and service improvement programs. Staff training also played a key role in better managing relationships with our customers. These initiatives are all designed to increase customer satisfaction, boost customer retention and enhance revenue growth.

New products and services, such as the ScotiaMax family of deposit products, ScotiaLine line of credit, and insurance on mortgages and credit card balances, were launched across the region. We continued our aggressive ABM rollout. In Jamaica, telephone banking was launched and we acquired and converted Citibank's VISA credit card portfolio. This included the renowned American Airlines AAdvantage™ frequent flyer program, which provides us with the opportunity to extend this program to certain other countries. Strategic alliances were struck with American Express and First Data Merchant Services to expand and improve our merchant service capabilities.

We successfully implemented several initiatives to increase efficiency, including the centralization of back office functions and electronic data processing. We also centralized our retail collection centres, which will help enhance our credit quality over the longer term.

Investments in technology and training continued throughout the region. We have targeted the key markets of Costa Rica and the Dominican Republic, as well as other growth areas within the region, for expansion.

## LATIN AMERICA

Scotiabank's operations in Latin America are concentrated in Mexico, Argentina and Chile, with affiliates in Venezuela and Peru. We have strong operations that are well positioned to benefit from the economic expansion and resulting growth in demand for banking services expected in these markets.

We increased our ownership of Mexico's Grupo Financiero Inverlat to 55% in November 2000. Inverlat is a leading Mexican bank, investment and foreign exchange dealer with more than 400 branches and offices and more than 920 ABMs. During the year, we launched a mortgage product that positioned Inverlat as a leader in the Mexican retail home financing market. A new fixed-rate car loan product moved the bank to second place from fifth in the automotive lending business. We expanded our electronic delivery capabilities, launching Internet banking and substantially upgrading the capabilities of our telephone banking centre. As well, we are converting 55 branches to focus on both retail and commercial banking. Inverlat is poised to realize rapid bottom-line growth, as we have made significant progress in rationalizing operations, upgrading technology and adding new products and services.

Scotiabank Quilmes, a wholly owned subsidiary with a network of 92 branches and 137 ABMs, has made important progress in entrenching Scotiabank's core competencies in risk management and operating efficiency. We are focusing our efforts in Buenos Aires and central Argentina. Sales of packaged banking services more than doubled and the bank's share of the residential mortgage market increased, as we concentrated on specific market segments. New products, such as an innovative residential mortgage and a customer loyalty program, were successfully launched. Telephone and Internet banking services were expanded to improve customer service and reduce transaction costs.

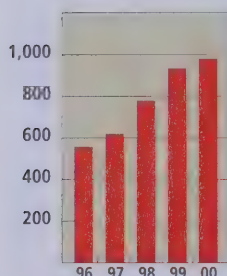
In November 2000, Scotiabank increased its interest in Banco Sud Americano (BSA) in Chile from 61% to 98% through a public tender offer. BSA has a network of 75 branches and offices focused in Santiago and central Chile. Since taking control of the bank in December 1999, Scotiabank has concentrated on improving operating efficiency and risk management.



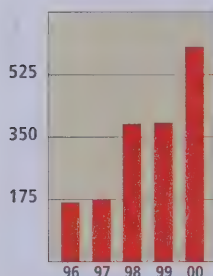
- 23% revenue growth to \$1.8 billion contributed to a 23% increase in International net income.
- Implemented ScotiaMax family of deposit products, line of credit and mortgage insurance to further increase profitability in the Caribbean and Central America (CCA).
- Scotiabank Trinidad & Tobago recognized as the "Top Performing Bank" and "Top Performing Company" of 1999 in the Caribbean, by Ernst & Young.
- Acquired and converted Citibank's American Airlines AAdvantage™ VISA portfolio in Jamaica.
- Continued focus on trade finance in CCA and Latin America regions with the launch of Scotia Americas Capital Equipment Purchase Program and Scotia Open Account Receivables Services in Canada.
- Increased ownership of Grupo Financiero Inverlat to 55% in November 2000.
- Launched Inverlat telephone banking service in Mexico, signing up 190,000 customers.
- Acquired control of Banco Sud Americano, Chile, increasing our interest to 98% in November 2000.
- ScotiaMocatta was a market leader in bullion trading in India, with sales of gold and silver valued at approximately \$1 billion.

## Total revenue

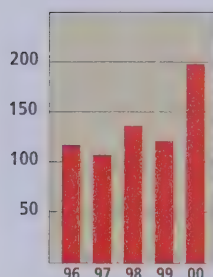
Caribbean &  
Central America  
\$ millions



Latin America  
\$ millions



Asia  
\$ millions



## ASIA

As the Asian economies continue to recover, there has been a significant increase in business volumes and financial returns from our operations across the region. Commercial banking continues to be an area of prime focus, with increased activity during the year in debt securities markets and syndications. We also continued to expand our presence in Asian ship financing, and in regional gold markets, where ScotiaMocatta handled more than US\$1 billion of gold volumes. We successfully leveraged global and regional trade flows to grow both our import and export trade finance volumes in the region by more than 25%.

During the year, we profited from the sale of our stake in Solidbank in the Philippines. We also announced the closure of our branches in Sri Lanka and Bangladesh, as well as the divestiture of our operations in the Mediterranean markets of Egypt and Greece. We are now focusing our efforts on higher potential markets in the region, including India, Malaysia, Hong Kong and Singapore, and we are well positioned to grow as these markets continue to expand.

## FINANCIAL PERFORMANCE

The International Banking division contributed \$364 million to the Bank's earnings this year, a 23% increase over 1999, and representing 19% of the Bank's net income.

Caribbean and Central American operations continue to lead the division's contribution, with net income of \$221 million this year, in line with strong results in 1999. Most of the 25 countries in the region had higher earnings, with steady asset and revenue growth offset by higher loan losses and operating expenses.

In Latin America, income was substantially above last year's level and our target. Both Scotiabank Quilmes in Argentina and BSA in Chile showed improved performance, as the investments made in prior years began to produce results. As well, investment income increased over last year.

In Asia, where economic conditions have continued to improve, earnings rose year over year. We had moderate growth in assets and fee income, partly reflecting the emphasis on trade finance business. Loan losses returned to normal levels following virtually nil provisions in 1999. As well, we realized a gain on the sale of Solidbank, our affiliate in the Philippines.

## OUTLOOK

We anticipate higher net income in 2001 in International Banking. In the Caribbean and Central America, we expect our record of growth to continue. We also anticipate a substantial rise in earnings from Latin America, with the addition of earnings from Inverlat in Mexico, and better performance from our subsidiaries in Argentina and Chile. In Asia, we expect reasonable growth in earnings.

### Financial performance, International Banking

\$ millions	2000	1999	1998
Net interest income	\$ 1,371	\$ 1,083	\$ 1,003
Other income	451	402	335
Provision for credit losses	(185)	(115)	(155)
Non-interest expenses	(1,057)	(870)	(714)
Income taxes/minority interest	(216)	(204)	(221)
Net income	\$ 364	\$ 296	\$ 248
Average earning assets (\$ billions)	31	26	23
Productivity ratio (%)	58.0	58.6	53.4
Staffing <sup>(1)</sup>	10,596	8,622	8,590
Number of branches <sup>(1)</sup>	455	345	333
Number of ABMs <sup>(1)</sup>	533	370	245

(1) Excludes affiliates



**At Scotiabank, we use technology in two ways – to improve the customer experience, and to improve our own efficiency and productivity.**

To fully participate in the e-commerce revolution, we established e-Scotia last year, with two mandates. The first is to enable both our customers and our staff to access the latest in financial products and services electronically. The second is to explore alliances, joint ventures and investments in e-commerce companies with technologies that we can leverage throughout the Scotiabank Group.

We have provided all of our branches and offices in Canada with high-speed Internet access. This allows us to take full advantage of Web-based tools and processes, and improve our communications with customers.

## BUSINESS-TO-CONSUMER

Our retail and small business customers want more choice and convenience when they do their banking and trading. We responded by teaming up with a number of Canadian companies and embarking on a wide-ranging expansion of our innovative wireless financial services. Customers now have direct access to their banking and brokerage accounts through a Web-enabled cell-phone, using the Bell Mobility wireless data network. We also launched wireless services on Blackberry handheld devices through the Rogers AT&T, ClearNET and Telus Mobility networks.

As well, online banking functionality continues to grow. New capabilities resulted in record interest in our online services.

We introduced enhancements to TeleScotia, our telephone banking service, including inquiry access to credit profiles, investment summaries and pending transactions. In September, Scotiabank became the first Canadian financial institution to launch a consumer pilot of voice recognition telephone banking services. This technology offers customers the convenience of performing banking transactions by using simple voice commands. Members of the Canadian National Institute for the Blind were among the first Canadian consumers to benefit.

Scotiabank was also the first bank to join both EPOST and e-route Inc. Both consortiums will make it easier for Canadians to receive and pay their bills online.

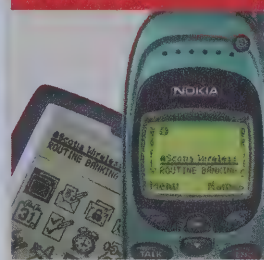
## BUSINESS-TO-BUSINESS

e-Scotia has partnered with several companies to help our small and medium-sized business customers capitalize on e-commerce opportunities. We joined with Microsoft to introduce ScotiaWeb store, which helps small businesses move onto the Web in less than an hour at a very reasonable cost. We also teamed up with a number of other leading companies in Canada to form Procuron, an e-procurement marketplace. This will allow us and our small business customers to realize substantial savings by purchasing goods and services online.

We announced a strategic partnership with Creditwave – a Canadian e-commerce company specializing in Internet point-of-sale lending – to make it easier for businesses to provide instant online credit to their customers. As well, we are working with another supplier to provide auto dealerships across Canada with an Internet-based credit application and approval system that can easily be integrated into their existing computer systems.

e-Scotia is also partnering with Canada's leading professional medical groups in the Canadian Doctors' Network, the first online portal of its kind in Canada, which will enable thousands of physicians to conveniently access an array of customized financial products and services over the Internet. Scotiabank will create and maintain the financial services component of the portal. In the coming months, we will provide access to suppliers on the Web and facilitate the secure settlement of credit card transactions, to make it easier for physicians to buy medical equipment and supplies online.

## HIGHLIGHTS



- Significantly expanded our wireless financial services, teaming up with Bell, Rogers AT&T, ClearNET and Telus.
- Expanded online banking services, reflecting increased customer demand.
- First Canadian bank to pilot voice recognition telephone banking services.
- Introduced ScotiaWeb store in partnership with Microsoft, to help small businesses sell online.
- Joined with other leading Canadian companies to form Procuron, an e-procurement marketplace.
- In a strategic partnership with Creditwave, offered the first service in Canada that instantly matches customers with a variety of lending options at point-of-sale, in store or online.
- Joined forces with WebMD Canada, the College of Family Physicians of Canada and The Royal College of Physicians and Surgeons of Canada to create and provide financial services for the Canadian Doctors' Network, the first online physicians' portal of its kind in Canada.

## RISK MANAGEMENT OVERVIEW

*Risk management is a cornerstone of prudent banking practice. A strong enterprise-wide risk management culture provides the foundation for the Bank's risk management program.*

The Bank assumes credit and market risks in order to generate a return on its capital. The objectives of the risk management process are to understand, evaluate and manage the relationship between risk and return, establish appropriate limits and controls, and ensure that activities are conducted in a sound and prudent manner.

The Board of Directors is responsible for approving risk management policies and key limits for the Bank's risk-taking activities, and delegates the implementation and day to day oversight to senior management. In carrying out this mandate, senior management works closely with each business unit, playing an ongoing role in the evaluation and management of all risks. Management's analyses of operations and risk performance are reported to the Board on a regular basis.

The Bank applies prudent policies and limits to manage the risk profile of each business unit. The limits and policies are complemented by highly disciplined control, analysis, review and reporting processes, which ensure that existing and proposed activities are consistent with the Bank's risk and return objectives. These processes are conducted independently of the business units.

## CREDIT RISK

*Scotiabank's credit risk management is based on well-defined strategies for controlling risk, including centralized credit processes, portfolio diversification, enhanced credit risk analysis and strong Board oversight.*

## CREDIT PROCESSES

Scotiabank employs a highly centralized credit granting process that ensures all major lending decisions are referred to the Senior Credit Committees or, where appropriate, to the Loan Policy Committee. Credit proposals on major corporate and commercial accounts are submitted directly to the Credit Department by client relationship officers in the business lines. Credit specialists, who are independent of the business line, analyze the proposal. A risk rating system is used to quantify and evaluate the risk, and determine whether the Bank is being adequately compensated.

Once a credit proposal has been authorized, a company's financial condition is monitored by business line and credit department personnel for signs of deterioration, which could affect the borrower's ability to meet its obligations to the Bank. In addition, a full review and risk analysis of each client relationship is undertaken at least annually. These reviews consider the overall credit exposure, including swaps, letters of credit and other off-balance sheet instruments. Additional reviews are carried out more frequently in the case of higher risk credits.

Decisions on small and medium-sized commercial credits and most retail credits are made in branches or through customer service centres using sophisticated scoring models. Retail portfolios are reviewed on a monthly basis for emerging trends in credit quality. In addition, these portfolios are

## BOARD OF DIRECTORS

reviews and approves risk management policies, standards and key limits

## SENIOR MANAGEMENT COMMITTEES

**Loan Policy Committee:** reviews key risk exposures and risk policies, and adjudicates risk issues referred by the Senior Credit and Market Risk committees.

**Liability Committee:** provides strategic direction in the management of global interest rate risk, foreign exchange risk, liquidity risk, and trading and investment portfolio decisions.

**Senior Credit Committees:** are responsible for the adjudication of credits within prescribed limits, and establishing the operating rules and guidelines for the implementation of credit policies. The committees cover commercial, international, corporate and investment banking counterparties.

**Market Risk Management and Policy Committee:** oversees and establishes standards for market risk management processes within the Bank, including the review and approval of new products, limits, practices and policies for the Bank's principal trading and treasury activities.

**Scotia Capital Trading Risk Committee:** assesses and monitors overall market risks, risk control mechanisms, credit risk and compliance issues as they relate to trading businesses.



regularly subjected to detailed analytical review to confirm the validity of the parameters used in the scoring models.

## PORTFOLIO DIVERSIFICATION

The Bank's overall objective in managing credit risk is to mitigate the adverse impact of any single event or set of occurrences. To achieve this, the Bank strives to maintain a credit risk profile that is diverse in terms of product type, industry concentration, geographic distribution and counterparty concentration. Risks are further mitigated through counterparty, industry and product exposure limits, and by ensuring that there is wide diversification in the Bank's business lines.

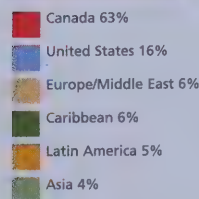
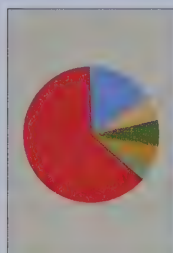
## ENHANCED CREDIT ANALYSIS

Scotiabank continues to research and develop new analytical tools designed to better manage risk within its credit portfolios. The fundamental financial analysis applied in the assessment of large corporate and commercial credits is supplemented by the use of advanced analytical techniques which employ data from various securities markets. Such techniques are also used in the regular reviews of individual portfolios to provide early warning of potential problems. When the risk profile of a particular portfolio segment appears to be increasing, action can be taken to mitigate the risk. These techniques are supplemented by historical migration data within various portfolios to estimate probable trends in credit quality over time.

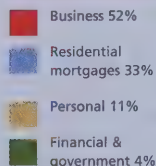
## BOARD OVERSIGHT

Large individual credits are reported to the Board of Directors at least annually, and executive management regularly advises the Board on the composition of and trends in the Bank's portfolios, and on trends in credit quality. Executive management also reviews sector limits with the Board periodically and, based on these reviews, the Board authorizes the limits within which the Bank operates.

Canadian foundation, international diversification  
loans & acceptances, excl reverse repos, September 2000



Balance between household and business lending  
loans & acceptances, excl reverse repos, September 2000



## MARKET RISK

*Market risk refers to the risk of loss resulting from changes in interest rates, foreign exchange rates, market prices and volatilities that arise from the Bank's funding, investment and trading activities.*

MARKET RISK		
Funding	Investment	Trading
- interest rate risk	- interest rate risk	- interest rate risk
- foreign exchange risk	- foreign exchange risk	- foreign exchange risk
	- equities risk	- equities risk
		- commodities risk

The Liability Committee (LCO) and the Market Risk Management and Policy Committee (MRMPC) provide senior management oversight of the various activities that expose the Bank to market risk. The LCO is primarily focused on asset liability management, which includes lending, funding and investment activities. The MRMPC is responsible for the approval of new products, limits and practices for trading, as well as funding and investment activities. All market risk limits are reviewed at least annually. The key sources of market risk are described below.

### INTEREST RATE RISK

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustment within a specified period. In the Bank's lending, funding and investment activities, the impact of changes in interest rates is reflected in net interest income. For trading activities, the impact of these changes is reflected in other income.

### FOREIGN EXCHANGE RISK

Foreign exchange risk arises from trading activities, foreign currency operations and investments in foreign subsidiaries. In its trading activities, the Bank buys and sells currencies in the spot, forward and options markets, for its customers and for its own account. The daily activities of the Bank's international businesses are conducted in a broad range of local currencies, and foreign exchange gains and losses from these activities are included in other income. Investments in foreign subsidiaries are retained in the currency of account and translated into Canadian dollars, with translation gains and losses reflected in retained earnings.

### EQUITIES RISK

Scotiabank trades equities for its customers and for its own account. Equity risk from these activities arises from changes in the value of a specific equity instrument or overall movements in the value of stock markets.

### COMMODITIES RISK

Scotiabank's commodities trading activity is focused on precious and base metals, and related options and futures. While the risks arising from these activities are similar to the spot, forward and options risks in foreign exchange trading, there can be additional risks associated with the physical nature of the commodities traded.

## RISK MEASUREMENT

The Bank uses a variety of techniques to identify, measure and control the risks it assumes in its various activities. For each type of activity, key risk measures have been identified, and limits for these risk measures have been approved by the Board of Directors. Within the policy and limit framework established by the Board, the Market Risk Management and Policy Committee (MRMPC) approves limits and controls based on these and other measurement techniques.

### Value at Risk

Value at Risk (VAR) is an estimation of the potential for loss of value that could result from holding a position for a specified period of time within a given level of statistical confidence.

In the Bank's Value at Risk system, VAR is calculated daily for all significant trading portfolios at a 99% confidence level, for one and 10-day holding periods, using historical simulations based on 300 days of market data. VAR is also used to evaluate risks arising in certain funding and investment portfolios. The Bank conducts formal analysis on an ongoing basis to ensure the accuracy and quality of the VAR.

### Stress testing

While VAR measures potential losses in normally active markets, stress testing examines the impact that abnormally large swings in market factors and periods of prolonged inactivity might have on trading portfolios. The stress testing program is designed to identify key risks and ensure that the Bank's capital can easily absorb potential losses from stress events. The Bank subjects its trading portfolios to more than 200 stress scenarios on a monthly basis. A selected set of stress tests is also performed daily.

### Sensitivity analysis and simulation modeling

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. It is applied on a global basis to the major currencies within the Bank's operations. Simulation models enable the Bank to dynamically assess interest rate risk. The models incorporate assumptions about growth, mix of new business, changes in interest rates, shape of the yield curve, embedded product options, maturities and other factors. Simulation modeling under various scenarios is particularly important for managing risk in the deposit, lending and investment products the Bank offers to its retail customers.

### Gap analysis

The interest rate gap is a common measure of interest rate sensitivity. A liability gap occurs when more liabilities than assets are subject to rate changes during a given time period. The Bank applies gap analysis in its retail and wholesale banking operations.

## ASSET LIABILITY MANAGEMENT

*Asset liability management (ALM) focuses on measuring, managing and controlling the market and liquidity risks arising in the Bank's lending, funding and investing activities. Scotiabank's ALM process is designed to maintain a balance between enhancing interest revenue and maintaining strong liquidity within a framework of sound and prudent practices. The Liability Committee meets weekly to review risks and evaluate performance.*

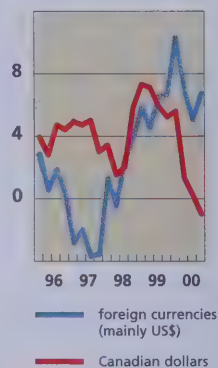
### MANAGEMENT OF INTEREST RATE RISK

Interest rate risk arising from the Bank's ALM activities is controlled by global limits which are approved annually by the Board of Directors. These limits are designed to control the risk to revenue and economic value. Interest rate exposures in individual currencies are managed by gap limits. Gap analysis, simulation modeling, sensitivity analysis and VAR are used to assess exposures and for planning purposes. The Bank uses interest rate swaps, futures, forward rate agreements and options to hedge and manage interest rate risk within the funding and investment books.

The chart above illustrates trends in the interest rate gaps. For most of the year, the Bank took steps to reduce its one-year Canadian dollar liability gap, given the trend of rising short-term interest rates. Liability gap exposures in foreign currencies (where the U.S. dollar is the largest component) were also reduced from the peaks reached in early 2000.

Based on the Bank's interest rate positions at year end 2000, an immediate and sustained 100 basis point rise in interest rates across all currencies and maturities would lower net income after tax by approximately \$21 million over the next 12 months. During fiscal 2000, this measure has ranged between \$21 million and \$69 million. This same shock would reduce the present value of the Bank's net assets by approximately \$371 million (versus \$433 million in 1999 and \$385 million in 1998).

Interest rate gap  
\$ billions, one-year liability gap



### MANAGEMENT OF FOREIGN CURRENCY RISK

Foreign currency risk arising from the Bank's investments in foreign subsidiaries and foreign currency operations is subject to a Board-approved limit. The LCO reviews and manages these exposures.

### MANAGEMENT OF LIQUIDITY RISK

Liquidity risk arises from mismatches in cash flows. The objective of the liquidity management processes is to ensure that the Bank honours all of its financial commitments as they come due. To fulfill this objective, the Bank measures



**Table 11 Interest rate gap**

<i>Interest rate sensitivity position<sup>(1)</sup> As at October 31, 2000 (\$ billions)</i>	Within 3 months	3 to 12 months	Over 1 year	Non-interest rate sensitive	<b>Total</b>
<b>Canadian dollars</b>					
Assets	\$ 69.2	\$ 16.0	\$ 41.2	\$ 6.6	<b>\$ 133.0</b>
Liabilities	59.5	24.7	25.0	23.8	<b>133.0</b>
Gap	9.7	(8.7)	16.2	(17.2)	–
Cumulative gap	9.7	1.0	17.2	–	–
<b>Foreign currencies</b>					
Assets	85.5	11.5	14.0	9.2	<b>120.2</b>
Liabilities	96.9	6.8	6.1	10.4	<b>120.2</b>
Gap	(11.4)	4.7	7.9	(1.2)	–
Cumulative gap	(11.4)	(6.7)	1.2	–	–
<b>Total</b>					
Gap	\$ (1.7)	\$ (4.0)	\$ 24.1	\$ (18.4)	\$ –
Cumulative gap	(1.7)	(5.7)	18.4	–	–
As at October 31, 1999:					
Gap	\$ (9.4)	\$ (2.4)	\$ 28.6	\$ (16.8)	\$ –
Cumulative gap	(9.4)	(11.8)	16.8	–	–

(1) The above figures reflect the inclusion of off-balance sheet instruments, as well as an estimate of prepayments on consumer and mortgage loans. The off-balance sheet gap is included in liabilities.

**Table 12 Liquidity**

<i>For the fiscal years (\$ millions)</i>	2000	1999	1998	1997	1996
<b>Canadian dollar liquid assets</b>					
Cash and deposits with Bank of Canada	\$ 648	\$ 642	\$ 680	\$ 404	\$ 826
Deposits with other banks	1,131	1,327	1,399	2,769	1,177
Securities	22,129	16,571	15,109	14,417	14,392
Call and short loans	–	–	–	25	–
	<b>23,908</b>	<b>18,540</b>	<b>17,188</b>	<b>17,615</b>	<b>16,395</b>
<b>Foreign currency liquid assets</b>					
Cash and deposits with Bank of Canada	1,598	1,302	1,680	654	659
Deposits with other banks	15,368	13,844	19,141	14,347	12,075
Securities	12,058	10,229	7,531	7,200	5,994
Call and short loans	–	–	86	–	72
	<b>29,024</b>	<b>25,375</b>	<b>28,438</b>	<b>22,201</b>	<b>18,800</b>
<b>Total liquid assets</b>					
Cash and deposits with Bank of Canada	2,246	1,944	2,360	1,058	1,485
Deposits with other banks	16,499	15,171	20,540	17,116	13,252
Securities	34,187	26,800	22,640	21,617	20,386
Call and short loans	–	–	86	25	72
	<b>\$52,932</b>	<b>\$ 43,915</b>	<b>\$ 45,626</b>	<b>\$ 39,816</b>	<b>\$ 35,195</b>
Liquid assets as a % of total assets	<b>20.9%</b>	<b>19.7%</b>	<b>19.5%</b>	<b>20.4%</b>	<b>21.3%</b>

and forecasts its cash commitments, applies controls to its cash flow gaps, maintains diversified sources of funding, sets prudent limits and ensures immediate access to liquid assets. Maintaining a strong credit rating also ensures timely access to borrowing on favourable rates and terms. The Bank conducts scenario testing to evaluate its liquidity assumptions and its ability to sustain operations under duress. Formal liquidity contingency plans are an integral part of the Bank's overall business resumption plans [referred to under Operational Risk].

The Board of Directors annually approves limits to control the Bank's global net cumulative liability cash flow gap and minimum core liquid assets for key global currencies. The LCO evaluates the Bank's liquidity profile on a weekly basis.

### Funding

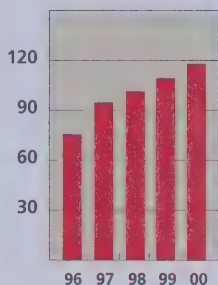
Scotiabank relies on a broad range of funding sources and applies prudent limits to avoid undue concentration. The principal sources of funding are capital, core deposits from retail and commercial clients, and wholesale deposits raised in the interbank and commercial markets. Scotiabank's extensive domestic and international branch network provides a strong foundation for diversifying its funding and raising the level of core deposits. The range of funding sources is further enhanced by securitizing assets and issuing notes in the market. During 2000, the Bank securitized \$1.3 billion in personal lines of credit, issued \$637 million in European medium-term notes and \$336 million in mid-term notes to the domestic market, and issued \$500 million in Scotiabank Trust Securities (Scotia BaTS).

The Bank benefits considerably from its substantial core funds, which now represent half of total funding. In 2000, core funds continued to grow, reaching \$118 billion as at October 31, 2000 (1999 – \$109 billion).

### Liquid assets

The Bank maintains large holdings of liquid assets which can be used to sustain operations in the event of unexpected disruptions. As at October 31, 2000, liquid assets were \$52.9 billion (1999 – \$43.9 billion), equal to 21% of total assets (1999 – 20%). These assets consisted of securities 65% (1999 – 61%) and cash and deposits 35% (1999 – 39%). Holdings of defined, highly liquid assets must meet a prescribed minimum proportion of the net cash flow gap. The Bank pledges a portion of its liquid assets to support its participation in certain markets and activities. As at October 31, 2000, total assets pledged were \$31.1 billion (1999 – \$23.7 billion). Most of this amount is associated with the Bank's securities repurchase and borrowing activities.

Substantial core funds  
\$ billions, October 31



## TRADING ACTIVITIES

*Scotiabank's policies, processes and controls for trading activities are designed to achieve a balance between exploiting profitable trading opportunities and managing earnings volatility, within a framework of sound and prudent practices. Trading portfolios are managed with the intent to buy and sell financial instruments over a short period of time, rather than to hold positions for longer-term investment. Trading activity is customer focused, but also includes a proprietary component.*

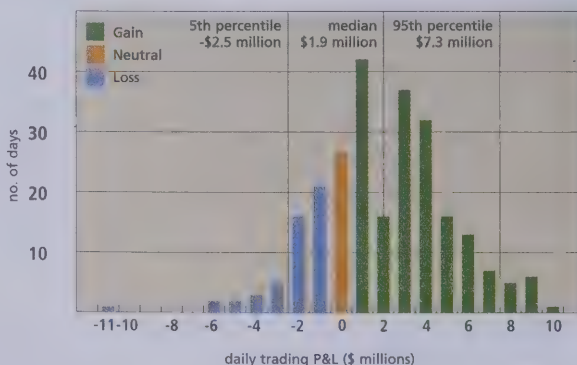
### MEASUREMENT AND CONTROL

In its daily evaluation of trading activities, senior management is supported by comprehensive measurement and control systems. All trading activity is subject to explicit limits which are established by currency, instrument position and term. Portfolios are marked to market daily and valuations are independently reviewed on a regular basis. The back office and risk management units independently review and report on all aspects of trading activity, providing daily reports of profit and loss, Value at Risk (VAR), and limit compliance to appropriate departments and executive management for evaluation and action.

Independent risk management units are responsible for conducting regular reviews of models and valuations used by traders. They execute and analyze stress testing, sensitivity analysis and VAR calculations, and review and participate in new product development.

The histogram below illustrates the low risk associated with the Bank's trading portfolios during fiscal 2000. The average daily trading-related revenue was \$1.9 million. The single largest loss of \$11.3 million is associated with the April 14, 2000, correction in the equity markets.

Low variability of net trading revenues  
period ending October 31, 2000





The Board of Directors annually approves aggregate VAR and stress testing limits for the Bank's trading portfolios, and reviews the results quarterly. The Market Risk Management and Policy Committee also sets VAR limits by business line and reviews the results monthly. For fiscal 2000, the aggregate 10-day VAR averaged \$23 million, and ranged from \$13 million to \$43 million. This compares to \$26 million in fiscal 1999.

## DERIVATIVE PRODUCTS

Derivatives are important risk management tools for both Scotiabank and its customers. The Bank uses derivatives to manage market risks arising from its funding and investment activities, and to lower its cost of capital. As noted previously on page 44, the Bank uses several types of derivative products to hedge interest rate risk exposure. Forwards, swaps and options are also used to manage foreign exchange risk. As a dealer, the Bank markets derivatives to its customers and engages in position taking for its own account.

Most of the Bank's derivatives transactions are in instruments that are widely used and well understood by participants in the financial marketplace. The Bank also markets more complex derivatives. While derivatives are subject to the control, reporting and analytical processes which are generally applied to the Bank's trading activities, additional controls and analytical techniques are applied to address certain market-related risks unique to derivative products.

To control credit risk, the Bank applies limits to each counterparty, measures exposure as the current fair value plus potential future exposure, and applies credit mitigation techniques, such as netting and collateralization. The Bank's derivatives portfolio is composed primarily of short-term instruments with high-quality counterparties. More than 88% of the credit risk amount arising from the Bank's derivative transactions is with investment grade counterparties, substantially unchanged from last year.

## OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. While efforts to measure operational risk have gained prominence recently, such risks are not new to the banking industry.

Given the diversification of Scotiabank's business activities, and the extent of its international operations, a wide variety of checks and balances to address operational risks have been developed, as an important part of our risk management culture. Executive and senior management's continued commitment to such controls, including regularly scheduled audits of related business processes, ensures that an appropriately disciplined environment exists to control such risks. Examples of safeguards developed to minimize the potential for material adverse impact on the Bank include:

- continuous identification, assessment, measurement and management of operational risks faced by the Bank;
- trained and competent staff, including a knowledgeable and experienced management team committed to risk management;
- appropriate infrastructure and information systems designed to ensure that proper and prudent controls are in place;
- segregation of duties and delegation of authority;
- timely and accurate provision of management information;
- a comprehensive business recovery planning process, including business resumption plans for all key operations areas, and extensive on- and off-site backup facilities to ensure the availability of service delivery; and
- regular audits by an experienced independent internal audit department, including comprehensive reviews of: the design and operation of internal control systems in all business and support groups; new products and systems; and the reliability and integrity of data processing operations.

Recognizing the need for a coordinated approach with respect to the emergence of new methodologies and advances in the area of operational risk, the Bank has created a new unit that will have global responsibility for operational risk management.

# SUPPLEMENTARY DATA\*

## CREDIT RISK

**Table 13** Geographic distribution of earning assets

<i>As at September 30 (\$ billions)</i>	2000		1999	1998	1997	1996
	Balance	% of earning assets				
<b>North America</b>						
Canada	\$133.0	58.1%	\$ 122.7	\$ 119.2	\$ 111.9	\$ 92.7
United States	44.0	19.2	38.9	38.9	28.2	22.5
Subtotal	177.0	77.3	161.6	158.1	140.1	115.2
<b>Europe</b>						
United Kingdom	9.2	4.0	8.1	8.8	6.5	5.4
France	1.9	0.8	1.7	2.4	2.2	2.0
Germany	3.3	1.4	2.4	2.3	1.6	2.2
Other	5.9	2.7	6.4	7.6	5.5	4.9
Subtotal	20.3	8.9	18.6	21.1	15.8	14.5
<b>Asia</b>						
Japan	1.3	0.6	1.3	2.6	4.6	4.2
Hong Kong	2.0	0.9	1.6	1.7	1.4	1.1
South Korea	1.4	0.6	1.4	1.2	0.9	0.7
Other	3.7	1.6	3.5	3.9	3.8	3.4
Subtotal	8.4	3.7	7.8	9.4	10.7	9.4
<b>Caribbean</b>						
Jamaica	2.8	1.2	2.7	2.4	1.8	1.4
Puerto Rico	2.1	0.9	2.0	2.0	1.5	1.5
Bahamas	1.5	0.7	1.4	1.3	0.9	0.8
Trinidad & Tobago	1.5	0.7	1.3	1.2	0.8	0.7
Other	4.6	2.0	4.2	4.0	3.0	2.5
Subtotal	12.5	5.5	11.6	10.9	8.0	6.9
<b>Latin America</b>						
Argentina	3.7	1.6	3.3	3.4	0.4	0.2
Chile	3.1	1.3	0.4	0.4	0.2	0.3
Mexico	1.5	0.6	1.2	1.4	1.0	1.2
Other	3.3	1.5	2.8	2.9	1.4	0.9
Subtotal	11.6	5.0	7.7	8.1	3.0	2.6
<b>Middle East and Africa</b>	0.4	0.2	0.6	0.6	0.2	0.2
General provision <sup>(1)</sup>	(1.3)	(0.6)	(1.3)	(0.6)	(0.5)	(0.3)
<b>Total</b>	<b>\$228.9</b>	<b>100.0%</b>	<b>\$ 206.6</b>	<b>\$ 207.6</b>	<b>\$ 177.3</b>	<b>\$ 148.5</b>

(1) As at October 31.

\* Certain comparative amounts in this report have been reclassified to conform with current year presentation.



**Table 14 Cross-border exposure to select geographic areas<sup>(1)</sup>**

As at October 31 (\$ millions)	Loans	Interbank deposits	Trade	Government securities	Investment in subsidiaries and affiliates	Other	2000 Total	1999 Total
<b>Asia</b>								
Thailand	\$ 89	\$ —	\$ 19	\$ —	\$ —	\$ —	\$ 108	\$ 179
Indonesia	182	—	—	—	—	—	182	186
Malaysia	576	—	35	—	104	—	715	717
The Philippines	202	—	1	110	—	—	313	421
	1,049	—	55	110	104	—	1,318	1,503
South Korea	662	—	572	158	—	33	1,425	1,634
Hong Kong	773	70	23	—	—	6	872	306
Other <sup>(2)</sup>	226	6	87	—	—	25	344	433
Subtotal	2,710	76	737	268	104	64	3,959	3,876
<b>Latin America</b>								
Mexico	267	—	247	891	48	7	1,460	1,316
Brazil	66	—	472	532	—	—	1,070	1,154
Argentina	343	3	68	188	303	—	905	894
Venezuela	18	—	3	212	127	3	363	394
Chile	242	—	8	—	190	5	445	331
Other <sup>(3)</sup>	575	13	159	122	114	—	983	922
Subtotal	1,511	16	957	1,945	782	15	5,226	5,011
<b>Central and Eastern Europe</b>	—	—	2	5	—	1	8	12
<b>Total</b>	<b>\$ 4,221</b>	<b>\$ 92</b>	<b>\$ 1,696</b>	<b>\$ 2,218</b>	<b>\$ 886</b>	<b>\$ 80</b>	<b>\$9,193</b>	<b>\$ 8,899</b>

(1) Cross-border exposure represents a claim, denominated in a currency other than the local one, against a borrower in a foreign country on the basis of ultimate risk.

(2) Includes China, Singapore, and Taiwan.

(3) Includes Colombia, Costa Rica, Ecuador, El Salvador, Panama, Peru and Uruguay.

**Table 15 Loans and acceptances by geography**

Excludes reverse repos							Percentage mix	
As at September 30 (\$ billions)	2000	1999	1998	1997	1996		2000	1996
<b>Canada</b>								
Atlantic provinces	\$ 9.2	\$ 9.1	\$ 9.0	\$ 8.4	\$ 8.1		6.1%	8.1%
Quebec	8.1	7.5	7.6	7.2	6.1		5.4	6.2
Ontario	50.7	48.3	48.1	46.6	33.9		33.7	34.0
Manitoba and Saskatchewan	4.4	4.2	4.1	3.9	3.6		2.9	3.6
Alberta	11.0	10.0	9.9	8.7	6.8		7.3	6.8
British Columbia	12.4	12.1	12.2	11.2	9.3		8.3	9.4
Subtotal	95.8	91.2	90.9	86.0	67.8		63.7	68.1
<b>International</b>								
United States	23.5	22.0	25.5	18.0	15.2		15.6	15.2
Europe	9.3	7.9	9.1	6.7	5.7		6.2	5.7
Caribbean	9.4	8.7	8.4	6.3	5.7		6.3	5.7
Asia	5.8	5.7	5.9	5.3	4.6		3.9	4.6
Latin America	7.6	4.4	4.7	0.9	0.8		5.0	0.8
Middle East and Africa	0.3	0.4	0.4	0.1	0.2		0.2	0.2
Subtotal	55.9	49.1	54.0	37.3	32.2		37.2	32.2
General provision <sup>(1)</sup>	(1.3)	(1.3)	(0.6)	(0.5)	(0.3)		(0.9)	(0.3)
<b>Total loans and acceptances</b>	<b>\$150.4</b>	<b>\$ 139.0</b>	<b>\$ 144.3</b>	<b>\$ 122.8</b>	<b>\$ 99.7</b>		<b>100.0%</b>	<b>100.0%</b>

(1) As at October 31.

**Table 16 Loans and acceptances by type of borrower**

<i>Excludes reverse repos</i> <i>As at September 30 (\$ billions)</i>	2000		1999	1998	1997
	Balance	% of total			
<b>Loans to households</b>					
Residential mortgages	\$ 49.8	33.2%	\$ 47.6	\$ 45.2	\$ 41.7
Personal loans	17.7	11.7	16.5	19.7	19.0
Subtotal	67.5	44.9	64.1	64.9	60.7
<b>Loans to businesses and governments</b>					
Resource and manufacturing, excluding automotive					
Oil and gas	4.3	2.9	3.3	3.7	3.4
Food and beverage	3.0	2.0	2.5	2.8	2.5
Electrical and other machinery	2.9	1.9	2.7	2.5	2.1
Agriculture	2.2	1.4	2.0	1.8	1.6
Primary metals	2.1	1.4	2.0	2.0	1.4
Forest products	2.1	1.4	2.2	2.4	2.2
Chemicals	2.0	1.4	1.8	2.0	1.5
Mining	1.5	1.0	1.8	1.6	0.7
Other	5.4	3.6	4.4	4.7	3.6
	25.5	17.0	22.7	23.5	19.0
Wholesale and retail distribution, excluding automotive	6.8	4.6	6.7	6.7	5.6
Automotive manufacturing and distribution	6.0	4.0	5.8	6.0	4.4
Transportation	5.3	3.5	4.6	4.7	3.5
Banks and other financial services	4.7	3.1	4.4	5.1	3.1
Real estate	4.5	3.0	4.1	4.3	3.7
Telecommunications and cable	4.1	2.7	2.4	3.1	2.5
Media	3.6	2.4	2.9	3.2	2.8
Construction	3.1	2.1	2.8	2.4	2.0
Hotels	2.7	1.8	2.5	2.3	2.0
Utilities	2.6	1.7	2.3	2.7	2.6
Holding companies	2.2	1.4	2.6	3.7	2.0
Commercial mortgages	1.7	1.1	1.6	1.8	1.9
Health service	1.6	1.1	1.9	2.3	1.4
Government	0.9	0.6	0.9	1.0	0.8
Other services	8.9	5.9	8.0	7.2	5.3
Subtotal	84.2	56.0	76.2	80.0	62.6
General provision <sup>(1)</sup>	(1.3)	(0.9)	(1.3)	(0.6)	(0.5)
Total loans and acceptances	\$ 150.4	100.0%	\$ 139.0	\$ 144.3	\$ 122.8

(1) As at October 31.

**Table 17 Off-balance sheet credit instruments**

<i>As at October 31 (\$ billions)</i>	2000	1999	1998	1997	1996
Guarantees and letters of credit	\$ 12.0	\$ 11.5	\$ 11.5	\$ 10.1	\$ 8.3
Commitments to extend credit	127.7	115.0	101.5	88.9	79.7
Securities lending transactions	4.8	3.0	3.1	4.6	5.4
Total	\$ 144.5	\$ 129.5	\$ 116.1	\$ 103.6	\$ 93.4



**Table 18 Changes in net impaired loans<sup>(1)</sup>**

<i>As at October 31 (\$ millions)</i>	<b>2000</b>	1999	1998	1997	1996
<b>Gross impaired loans</b>					
Balance at beginning of year	<b>\$ 2,380</b>	\$ 2,291	\$ 2,137	\$ 2,021	\$ 3,416
Newly acquired subsidiaries – balance at date of acquisition	<b>121</b>	–	237	280	–
Net additions	<b>965</b>	809	368	311	(91)
Writeoffs	<b>(781)</b>	(658)	(552)	(519)	(1,306)
Foreign exchange and other	<b>56</b>	(62)	101	44	2
Balance at end of year	<b>2,741</b>	2,380	2,291	2,137	2,021
<b>Allowance for credit losses<sup>(2)</sup></b>					
Balance at beginning of year	<b>2,536</b>	1,870	1,544	1,278	1,969
Implementation of new impaired loans accounting policy	<b>–</b>	–	–	–	202
Newly acquired subsidiaries – balance at date of acquisition	<b>153</b>	–	160	138	–
Provision for credit losses charged to:					
Income	<b>765</b>	635	595	535	380
Retained earnings	<b>–</b>	550 <sup>(3)</sup>	–	–	–
Writeoffs	<b>(781)</b>	(658)	(552)	(519)	(1,306)
Recoveries	<b>113</b>	138	57	70	38
Foreign exchange and other	<b>16</b>	1	66	42	(5)
Balance at end of year	<b>2,802</b>	2,536	1,870	1,544	1,278
<b>Net impaired loans</b>					
Balance at beginning of year	<b>(156)</b>	421	593	743	1,447
Net change in gross impaired loans	<b>361</b>	89	154	116	(1,395)
Net change in allowance for credit losses	<b>(266)</b>	(666)	(326)	(266)	691
Balance at end of year	<b>\$ (61)</b>	\$ (156)	\$ 421	\$ 593	\$ 743

(1) Excludes net impaired loans pertaining to designated emerging markets.

(2) Comprises specific and general provisions.

(3) Refer to Note 22 of the Consolidated Financial Statements.

**Table 19 Specific provisions for credit losses by business line**

<i>For the fiscal years (\$ millions)</i>	<b>2000</b>	1999	1998	1997	1996
<b>Domestic</b>					
Retail	<b>\$ 140</b>	\$ 150	\$ 216	\$ 172	\$ 138
Commercial	<b>28</b>	84	80	60	102
Subtotal	<b>168</b>	234	296	232	240
<b>International</b>					
Latin America	<b>99</b>	73	26	–	–
Caribbean	<b>61</b>	33	29	37	36
Asia	<b>16</b>	–	97	134	16
Europe	<b>9</b>	9	3	3	1
Subtotal	<b>185</b>	115	155	174	53
<b>Scotia Capital</b>					
Canada	<b>33</b>	(87)	2	(22)	61
United States and other	<b>379</b>	223	42	(24)	26
Subtotal	<b>412</b>	136	44	(46)	87
Total	<b>\$ 765</b>	\$ 485	\$ 495	\$ 360	\$ 380

**Table 20 Provisions for credit losses as a percentage of average loans and acceptances**

<i>For the fiscal years (%)</i>	<b>2000</b>	1999	1998	1997	1996
<b>Canada</b>					
Residential mortgages, personal and credit cards	<b>0.23%</b>	0.25%	0.37%	0.35%	0.32%
Business	<b>0.15</b>	(0.01)	0.22	0.12	0.60
<b>U.S. and other international</b>	<b>0.87</b>	0.57	0.40	0.37	0.24
Weighted subtotal – specific provisions	<b>0.46</b>	0.31	0.34	0.30	0.37
General provision	<b>–</b>	0.10 <sup>(1)</sup>	0.07	0.14	–
Country risk provision	<b>–</b>	–	–	n/a	–
Weighted total	<b>0.46%</b>	0.41%	0.41%	0.03%	0.37%

(1) Refer to Note 22 of the Consolidated Financial Statements.

## CAPITAL

**Table 21 Capital funding activity**

Issues	Maturities/Redemptions/Repurchases
April 4, 2000: \$500 million Scotiabank Trust Securities – Series 2000-1 issued by BNS Capital Trust	<b>Subordinated debenture repurchases</b>
	February 24, 2000: US\$15 million floating rate debenture due 2085
	June 13, 2000: US\$29.45 million floating rate debenture due 2085

**Table 22 Risk-adjusted assets**

As at October 31 (\$ billions)			2000		1999	
Conversion factor	Weighting factor		Gross	Risk-adjusted	Gross	Risk-adjusted
<b>On-balance sheet</b>						
–	0 – 20%	Cash resources	\$ 18.8	\$ 3.3	\$ 17.1	\$ 2.9
–	0 – 100%	Securities <sup>(1)</sup>	41.4	7.4	34.0	7.0
–	0 – 50%	Residential mortgages	50.0	13.0	47.9	11.1
–	0 – 100%	Loans and acceptances	125.7	95.8	107.1	85.6
–	0 – 100%	Other assets	17.3	5.5	16.6	5.9
		Total on-balance sheet	253.2	125.0	222.7	112.5
<b>Off-balance sheet</b>						
		<b>Indirect credit instruments:</b>				
0%	–	One year and under credit commitments	84.6	–	71.9	–
20%	0 – 100%	Short-term trade letters of credit	0.8	0.1	0.7	0.1
50%	0 – 100%	Longer-term credit commitments	43.1	19.2	43.1	19.5
50%	0 – 100%	Non-financial guarantees, standby letters of credit, NIFs and RUFs	4.4	2.2	4.0	2.0
100%	0 – 100%	Financial guarantees, standby letters of credit and securities lending	11.6	4.2	9.8	3.6
		Subtotal	144.5	25.7	129.5	25.2
		<b>Interest rate instruments:</b>				
0 – 1.5%	0 – 50%	Futures and forward rate agreements	221.3	0.1	215.6	0.1
0 – 1.5%	0 – 50%	Interest rate swaps	451.8	1.3	484.4	1.2
0 – 1.5%	0 – 50%	Interest rate options	145.0	0.1	71.9	0.1
		Subtotal	818.1	1.5	771.9	1.4
		<b>Foreign exchange instruments:</b>				
1 – 7.5%	0 – 50%	Futures and foreign exchange contracts	160.2	1.3	177.5	1.2
1 – 7.5%	0 – 50%	Currency swaps	42.0	0.6	40.9	0.5
1 – 7.5%	0 – 50%	Currency options	11.7	0.1	10.3	0.1
		Subtotal	213.9	2.0	228.7	1.8
6 – 15%	0 – 50%	<b>Other derivative instruments</b>	25.8	0.8	17.5	0.6
		Total off-balance sheet	1,202.3	30.0	1,147.6	29.0
		Total gross and risk-adjusted assets	1,455.5	155.0	1,370.3	141.5
		Impact of master netting	–	(1.2)	–	(1.2)
		Market risk – risk assets equivalent <sup>(1)</sup>	–	2.3	–	2.0
		Total	\$ 1,455.5	\$ 156.1	\$ 1,370.3	\$ 142.3

(1) Includes assets which are subject to market risk. The risk weighting of these assets is included in "Market risk – risk assets equivalent."



## OTHER INFORMATION

**Table 23 Components of net income as a percentage of average total assets<sup>(1)</sup>**

<i>Taxable equivalent basis For the fiscal years (%)</i>	<b>2000</b>	1999 <sup>(2)</sup>	1998	1997	1996
Net interest income	<b>2.26%</b>	2.11%	2.11%	2.13%	2.18%
Provision for credit losses	<b>(0.32)</b>	(0.28)	(0.28)	(0.02)	(0.24)
Other income	<b>1.54</b>	1.39	1.33	1.50	1.26
Net interest and other income	<b>3.48</b>	3.22	3.16	3.61	3.20
Non-interest expenses	<b>(2.16)</b>	(2.08)	(2.08)	(2.11)	(2.03)
Restructuring provision and goodwill writeoff	<b>0.01</b>	0.01	–	(0.15)	0.01
Net income before the undernoted:	<b>1.33</b>	1.15	1.08	1.35	1.18
Provision for income taxes and non-controlling interest	<b>(0.52)</b>	(0.47)	(0.43)	(0.50)	(0.51)
Net income	<b>0.81%</b>	0.68%	0.65%	0.85%	0.67%
Average total assets (\$ billions)	<b>\$ 238.7</b>	\$ 229.0	\$ 214.0	\$ 179.2	\$ 158.8

(1) Income from tax-exempt securities has been expressed on an equivalent before-tax basis. The provision for income taxes has been adjusted by a corresponding amount: 2000 – \$194 million; 1999 – \$163 million; 1998 – \$129 million; 1997 – \$103 million; 1996 – \$105 million.

(2) Refer to Note 22 of the Consolidated Financial Statements.

**Table 24 General provision and unrealized gains (losses) on investment securities**

<i>For the fiscal years (\$ millions)</i>	<b>2000</b>	1999	1998	1997	1996
<b>General provision</b>	<b>\$1,300</b>	\$ 1,300	\$ 600	\$ 500	\$ 325
<b>Investment securities</b>					
Common and preferred shares	<b>\$ 466</b>	\$ 244	\$ 50	\$ 225	\$ 222
Bonds of designated emerging markets	<b>283</b>	201	139	372	530
Other fixed income	<b>114</b>	(145)	(108)	220	304
	<b>\$ 863</b>	\$ 300	\$ 81	\$ 817	\$ 1,056

**Table 25 Assets under administration and management**

<i>As at September 30 (\$ billions)</i>	<b>2000</b>	1999	1998	1997	1996
<b>Assets under administration</b>					
Institutional trust and custodial services	<b>\$ 44.7</b>	\$ 45.8	\$ 37.7	\$ 35.2	\$ 160.6
Personal trust and custodial services	<b>93.8</b>	82.9	69.1	66.2	34.4
Retail mutual funds	<b>10.2</b>	8.8	8.0	7.9	4.7
Serviced mortgages	<b>3.1</b>	3.9	2.6	3.1	1.4
Total	<b>\$ 151.8</b>	\$ 141.4	\$ 117.4	\$ 112.4	\$ 201.1
<b>Assets under management</b>					
Institutional	<b>\$ 2.0</b>	\$ 1.6	\$ 2.0	\$ 2.0	\$ 6.6
Personal	<b>8.7</b>	7.5	6.8	7.1	2.4
Retail mutual funds	<b>7.8</b>	7.1	4.7	5.0	4.7
Total	<b>\$ 18.5</b>	\$ 16.2	\$ 13.5	\$ 14.1	\$ 13.7

**Table 26 Fees paid to the shareholders' auditors<sup>(1)</sup>**

<i>For the fiscal years (\$ millions)</i>	<b>2000</b>	1999
Audit (and related services)	<b>\$ 7.2</b>	\$ 6.6
Non-audit	<b>3.7</b>	4.4
Total	<b>\$ 10.9</b>	\$ 11.0

(1) Excludes fees which were paid by the Bank acting as agent, and therefore are not expenses of the Bank.

**Table 27 Selected quarterly information**

	2000				1999			
	Q4	Q3	Q2	Q1	Q4 <sup>(1)</sup>	Q3	Q2	Q1
<b>Operating results (\$ millions)</b>								
Net interest and other income	2,258	2,375	2,251	1,980	2,012	1,942	1,912	1,989
Provision for credit losses	226	227	177	135	159	108	109	259
Non-interest expenses	1,291	1,310	1,332	1,186	1,236	1,196	1,188	1,136
Income taxes	223	272	263	232	206	228	218	215
Net income	497	548	465	416	402	397	384	368
Preferred dividends	27	27	27	27	27	27	27	27
Net income to common shareholders	470	521	438	389	375	370	357	341
<b>Operating measures (%)</b>								
Net interest margin (TEB)	2.32	2.37	2.25	2.08	2.15	2.12	2.13	2.04
Productivity ratio	55.9	54.0	58.0	58.6	59.8	60.4	61.0	56.1
Return on equity	17.0	19.8	17.7	15.9	15.3	15.3	15.7	14.8
<b>Balance sheet and off-balance sheet information (\$ billions)</b>								
Cash and securities	60.1	55.9	59.1	54.8	51.1	53.0	49.5	51.6
Loans and acceptances	175.7	170.7	168.5	160.3	155.0	157.1	153.1	160.5
Total assets	253.2	243.1	244.8	232.4	222.7	227.4	221.5	232.5
Deposits	173.9	167.7	169.1	162.6	156.6	156.5	152.6	165.2
Subordinated debentures	5.4	5.3	5.4	5.3	5.4	5.5	5.0	5.2
Preferred shares	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Common shareholders' equity	11.2	10.7	10.3	9.9	9.6	9.8	9.4	9.2
Assets under administration	151.8	149.7	155.1	147.8	141.4	138.6	136.4	125.3
Assets under management	18.5	17.8	17.6	16.8	16.2	16.3	16.9	16.1
<b>Balance sheet measures (%)</b>								
Tier 1 capital ratio	8.6	8.5	8.4	8.0	8.1	8.0	7.8	7.2
Total capital ratio	12.2	12.1	12.0	11.7	11.9	11.5	11.2	10.6
Common equity to risk-adjusted assets	7.3	7.2	7.0	6.9	6.9	6.9	6.7	6.1
Specific provision for credit losses as a % of average loans and acceptances	0.52	0.54	0.44	0.34	0.41	0.28	0.28	0.29
Net impaired loans as a % of loans and acceptances	(0.03)	(0.10)	(0.08)	(0.11)	(0.10)	0.22	0.20	0.18
<b>Common share information</b>								
Per share – basic earnings (\$)	0.95	1.05	0.88	0.79	0.76	0.75	0.73	0.69
– fully diluted earnings (\$)	0.93	1.03	0.88	0.78	0.75	0.75	0.72	0.69
– dividends (\$)	0.28	0.24	0.24	0.24	0.24	0.21	0.21	0.21
– book value (\$)	22.49	21.60	20.71	19.92	19.49	19.78	19.01	18.71
Share price – high (\$)	45.65	39.05	34.15	34.10	34.25	35.10	36.90	36.30
– low (\$)	36.40	33.15	26.05	26.80	28.60	30.00	30.10	29.75
– close (\$)	43.50	37.55	33.75	29.55	33.60	31.35	34.65	32.50
Shares outstanding (millions)								
– average	497.0	495.8	494.8	494.3	493.9	493.4	492.9	492.3
– end of period	498.0	496.4	495.2	494.7	494.3	493.8	493.3	492.8
Market capitalization (\$ billions)	21.7	18.6	16.7	14.6	16.6	15.5	17.1	16.0
<b>Valuation measures</b>								
Dividend yield (%)	2.7	2.7	3.2	3.2	3.1	2.6	2.5	2.5
Dividend payout ratio (%)	29.7	22.9	27.1	30.5	31.6	28.0	29.0	30.3
Market value to book value multiple	1.9	1.7	1.6	1.5	1.7	1.6	1.8	1.7
Price to earnings multiple	11.9	10.8	10.6	9.8	11.5	11.0	12.5	12.0

(1) The Quarterly Information has been prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions, Canada, other than recording the one-time increase to the general provision for credit losses as a direct charge to retained earnings in the fourth quarter of 1999, which is in accordance with the accounting requirements specified by the Superintendent of Financial Institutions, Canada under the Bank Act, as described in Note 22 of the Consolidated Financial Statements. Had the one-time increase in the general provision been recorded as a charge to the Consolidated Statement of Income, the fourth quarter 1999 provision for credit losses would have been \$709 million, provision for income taxes \$(30) million, net income \$88 million, return on common shareholders' equity 2.5%, net income per common share (basic) \$0.12, net income per common share (fully diluted) \$0.12, and dividend payout ratio 195.7%.



# 2000 CONSOLIDATED FINANCIAL STATEMENTS

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# CONSOLIDATED FINANCIAL STATEMENTS

## Management's Responsibility for Financial Information

The management of The Bank of Nova Scotia is responsible for the integrity and objectivity of the financial information presented in this Annual Report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada, other than recording the increase in the general provision for credit losses as a direct charge to retained earnings in 1999, which is in accordance with accounting requirements of the Superintendent of Financial Institutions Canada under the Bank Act, as described in Note 22.

The consolidated financial statements reflect amounts which must of necessity be based on the best estimates and judgement of management with appropriate consideration as to materiality. Financial information presented elsewhere in this Annual Report is consistent with that shown in the accompanying consolidated financial statements.

Management has always recognized the importance of the Bank maintaining and reinforcing the highest possible standards of conduct in all of its actions, including the preparation and dissemination of statements fairly presenting the financial condition of the Bank. In this regard, management has developed and maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The system is augmented by written policies and procedures, the careful selection and training of qualified staff, the establishment of organizational structures providing an appropriate and well-defined division of responsibilities, and the communication of policies and guidelines of business conduct throughout the Bank.

Peter C. Godsoe  
Chairman of the Board  
and Chief Executive Officer

Bruce R. Birmingham  
President

Sarabjit S. Marwah  
Executive Vice-President  
and Chief Financial Officer

Toronto, December 6, 2000

## Auditors' Report

### To the Shareholders of The Bank of Nova Scotia

We have audited the Consolidated Balance Sheets of The Bank of Nova Scotia as at October 31, 2000 and 1999, and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the three-year period ended October 31, 2000. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant

The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic audits of all aspects of the Bank's operations. As well, the Bank's Chief Inspector has full and free access to, and meets periodically with, the Audit Committee of the Board of Directors.

The Superintendent of Financial Institutions Canada examines and enquires into the business and affairs of the Bank, as he may deem necessary, to satisfy himself that the provisions of the Bank Act, having reference to the safety of the interests of depositors, creditors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

The Audit Committee, composed entirely of outside directors, reviews the consolidated financial statements with both management and the independent auditors before such statements are approved by the Board of Directors and submitted to the shareholders of the Bank.

The Conduct Review Committee of the Board of Directors, composed entirely of outside directors, reviews and reports its findings to the Board of Directors on all related party transactions having a material impact on the Bank.

KPMG LLP and PricewaterhouseCoopers LLP, the independent auditors appointed by the shareholders of the Bank, have examined the consolidated financial statements of the Bank in accordance with Canadian generally accepted auditing standards and have expressed their opinion upon completion of such examination in the following report to the shareholders. The auditors have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and findings as to the integrity of the Bank's accounting and financial reporting and the adequacy of the system of internal controls.

estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2000 and 1999, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2000, in accordance with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada, other than recording the increase in the general provision for credit losses as a direct charge to retained earnings in 1999, which is in accordance with accounting requirements of the Superintendent of Financial Institutions Canada under the Bank Act, as described in Note 22.

KPMG LLP  
Chartered Accountants

PricewaterhouseCoopers LLP  
Chartered Accountants

Toronto, December 6, 2000



# CONSOLIDATED BALANCE SHEET

As at October 31 (\$ millions)	2000	1999
<b>Assets</b>		
<b>Cash resources</b>		
Cash and non-interest bearing deposits with banks	\$ 1,191	\$ 948
Interest bearing deposits with banks	16,250	15,065
Precious metals	1,303	1,102
	18,744	17,115
<b>Securities</b> (Note 3)		
Investment	19,565	20,030
Trading	21,821	13,939
	41,386	33,969
<b>Loans</b> (Note 4)		
Residential mortgages	49,994	47,861
Personal and credit cards	17,704	16,396
Business and governments	75,646	67,681
Assets purchased under resale agreements	23,559	13,921
	166,903	145,859
<b>Other</b>		
Customers' liability under acceptances	8,807	9,163
Land, buildings and equipment (Note 6)	1,631	1,681
Other assets (Note 7)	15,700	14,904
	26,138	25,748
	\$ 253,171	\$ 222,691
<b>Liabilities and shareholders' equity</b>		
<b>Deposits</b> (Note 8)		
Personal	\$ 68,972	\$ 65,715
Business and governments	76,980	64,070
Banks	27,948	26,833
	173,900	156,618
<b>Other</b>		
Acceptances	8,807	9,163
Obligations related to assets sold under repurchase agreements	23,792	16,781
Obligations related to securities sold short	4,297	2,833
Other liabilities (Note 9)	23,301	20,318
Non-controlling interest in subsidiaries (Note 10)	729	198
	60,926	49,293
<b>Subordinated debentures</b> (Note 11)	5,370	5,374
<b>Shareholders' equity</b>		
Capital stock (Note 12)		
Preferred shares	1,775	1,775
Common shares	2,765	2,678
Retained earnings	8,435	6,953
	12,975	11,406
	\$ 253,171	\$ 222,691

Peter C. Godsoe  
Chairman of the Board and  
Chief Executive Officer

Bruce R. Birmingham  
President

# CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31 (\$ millions except per share amounts)	2000	1999	1998
<b>Interest income</b>			
Loans	\$ 12,129	\$ 10,654	\$ 10,269
Securities	2,286	1,874	1,815
Deposits with banks	916	943	1,007
	15,331	13,471	13,091
<b>Interest expense</b>			
Deposits	8,192	7,284	7,303
Subordinated debentures	324	314	354
Other	1,616	1,201	1,057
	10,132	8,799	8,714
Net interest income	5,199	4,672	4,377
Provision for credit losses (Note 5) <sup>(1)</sup>	765	635	595
Net interest income after provision for credit losses <sup>(1)</sup>	4,434	4,037	3,782
<b>Other income</b>			
Deposit and payment services	624	602	619
Investment, brokerage and trust services	733	604	596
Credit fees	632	543	472
Investment banking	756	706	512
Net gain on investment securities	379	343	322
Securitization revenues	206	155	38
Other	335	230	299
	3,665	3,183	2,858
Net interest and other income <sup>(1)</sup>	8,099	7,220	6,640
<b>Non-interest expenses</b>			
Salaries	2,594	2,297	2,193
Pension contributions and other staff benefits	350	330	308
Premises and equipment, including depreciation	995	1,007	958
Other	1,214	1,142	987
Restructuring provision for National Trustco Inc. (Note 21)	(34)	(20)	—
	5,119	4,756	4,446
Income before the undernoted <sup>(1)</sup> :	2,980	2,464	2,194
Provision for income taxes (Note 14) <sup>(1)</sup>	990	867	762
Non-controlling interest in net income of subsidiaries	64	46	38
<b>Net income<sup>(1)</sup></b>	<b>\$ 1,926</b>	<b>\$ 1,551</b>	<b>\$ 1,394</b>
Preferred dividends paid	\$ 108	\$ 108	\$ 97
Net income available to common shareholders <sup>(1)</sup>	\$ 1,818	\$ 1,443	\$ 1,297
<b>Average number of common shares outstanding (000's):</b>			
Basic	495,472	493,136	490,914
Fully diluted	520,969	514,161	506,819
<b>Net income per common share<sup>(1)</sup>:</b>			
Basic	\$ 3.67	\$ 2.93	\$ 2.64
Fully diluted	\$ 3.62	\$ 2.91	\$ 2.63
<b>Dividends per common share</b>	<b>\$ 1.00</b>	<b>\$ 0.87</b>	<b>\$ 0.80</b>

(1) Refer to Note 22 in respect of an increase in the general provision for credit losses, charged directly to retained earnings in 1999.



# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>For the year ended October 31 (\$ millions)</i>	<b>2000</b>	1999	1998
<b>Preferred shares</b> (Note 12)			
Bank:			
Balance at beginning of year	<b>\$ 1,525</b>	\$ 1,525	\$ 1,218
Issued	<b>—</b>	—	311
Redeemed	<b>—</b>	—	(4)
Balance at end of year	<b>1,525</b>	1,525	1,525
Scotia Mortgage Investment Corporation	<b>250</b>	250	250
Total preferred shares	<b>\$ 1,775</b>	\$ 1,775	\$ 1,775
<b>Common shares</b> (Note 12)			
Balance at beginning of year	<b>\$ 2,678</b>	\$ 2,625	\$ 2,567
Issued under Stock Option Plan, Shareholder Dividend and Share Purchase Plan	<b>87</b>	53	58
Balance at end of year	<b>\$ 2,765</b>	\$ 2,678	\$ 2,625
<b>Retained earnings</b>			
Balance at beginning of year	<b>\$ 6,953</b>	\$ 6,414	\$ 5,363
Net income (Note 22)	<b>1,926</b>	1,551	1,394
Dividends: Preferred	<b>(108)</b>	(108)	(97)
Common	<b>(496)</b>	(429)	(393)
Net unrealized foreign exchange gains (losses)	<b>163</b>	(160)	152
Net cost of shares issued and redeemed, and other	<b>(3)</b>	(1)	(5)
Increase in general provision for credit losses, net of income taxes (Note 22)	<b>—</b>	(314)	—
Balance at end of year	<b>\$ 8,435</b>	\$ 6,953	\$ 6,414

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended October 31 (\$ millions)	2000	1999	1998
<b>Cash flows provided by (used in) operating activities</b>			
Net income (Note 22)	\$ 1,926	\$ 1,551	\$ 1,394
Adjustments to net income to determine net cash provided by (used in) operating activities:			
Depreciation and amortization	295	277	248
Provision for credit losses	765	635	595
Deferred income taxes	34	(26)	(89)
Restructuring provision for National Trustco Inc. (Note 21)	(34)	(20)	—
Accrued interest receivable	(619)	149	(307)
Accrued interest payable	59	710	(64)
Trading securities	(7,406)	(1,908)	(1,064)
Net gains on investment securities	(379)	(343)	(322)
Other, net	631	1,200	(207)
Cash (used in) provided by operating activities	(4,728)	2,225	184
<b>Cash flows provided by (used in) financing activities</b>			
Deposits	14,215	(5,201)	19,837
Obligations related to assets sold under repurchase agreements	6,434	2,642	2,552
Obligations related to securities sold short	1,445	(260)	(646)
Subordinated debentures:			
Proceeds	—	350	1,025
Repayment	(66)	(360)	(132)
Capital stock:			
Proceeds from preferred shares issued	—	—	307
Proceeds from common shares issued under Stock Option Plan, Shareholder Dividend and Share Purchase Plan	52	22	24
Cash dividends paid	(568)	(507)	(456)
Other, net	1,013	(254)	(277)
Cash provided by (used in) financing activities	22,525	(3,568)	22,234
<b>Cash flows provided by (used in) investing activities</b>			
Interest bearing deposits with banks	(1,001)	4,104	(1,974)
Loans, excluding securitizations	(19,108)	(9,727)	(21,520)
Loan securitizations	1,299	9,144	1,000
Investment securities:			
Purchases	(28,472)	(22,713)	(15,811)
Maturities	15,609	11,442	7,834
Sales	13,884	9,159	8,807
Land, buildings and equipment, net of disposals	(100)	(216)	(259)
Other, net <sup>(1)</sup>	(60)	—	—
Cash (used in) provided by investing activities	(17,949)	1,193	(21,923)
Effect of exchange rate changes on cash and cash equivalents	(2)	(50)	58
(Decrease) increase in cash and cash equivalents	(154)	(200)	553
Cash and cash equivalents at beginning of year	888	1,088	535
Cash and cash equivalents at end of year <sup>(2)</sup>	\$ 734	\$ 888	\$ 1,088
Represented by:			
Cash and non-interest bearing deposits with banks	\$ 1,191	\$ 948	\$ 1,392
Cheques and other items in transit, net (Note 9)	(457)	(60)	(304)
Cash and cash equivalents at end of year <sup>(2)</sup>	\$ 734	\$ 888	\$ 1,088
Cash disbursements made for:			
Interest	\$ 10,073	\$ 8,089	\$ 8,778
Income taxes	831	779	743

(1) Includes investments in subsidiaries of \$249 (net of cash and cash equivalents at date of acquisition) and other investment activities, net of proceeds from dispositions of business units.

(2) Prior to 2000, cash and cash equivalents was comprised of cash, interest bearing and non-interest bearing operating deposits with other banks, and on a net basis, uncleared cheques and other items in transit. Comparative amounts have been restated.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 1. Significant accounting policies

The consolidated financial statements of The Bank of Nova Scotia have been prepared in accordance with the Bank Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (the Superintendent), the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these consolidated financial statements, including the accounting requirements of the Superintendent, are summarized on the following pages. The Superintendent has specified that the one-time increase in the general provision for credit losses in 1999 be treated as a direct charge to retained earnings, which does not conform to GAAP, as described in Note 22. The accounting policies for all other financial statement items conform, in all material respects, to GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates.

Certain comparative amounts have been reclassified to conform with current year presentation.

### Basis of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries and effectively controlled associated corporations after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by the Bank which are normally corporations in which the Bank owns more than 50% of the voting shares. The purchase method is used to account for acquisitions of subsidiaries.

The cost of investments in subsidiaries in excess of fair value of the net identifiable assets acquired is amortized over the estimated periods to be benefitted, not exceeding 20 years. The unamortized balance is recorded in other assets as goodwill. The value of goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any permanent impairment in the value of goodwill is written off against earnings. Identifiable intangible assets are amortized over the estimated periods to be benefitted and the unamortized balance is recorded in other assets. Identifiable intangible assets are regularly evaluated for impairment by reviewing the amount of the estimated future net cash flows.

Investments in associated corporations, where the Bank has significant influence which is normally evidenced by direct or indirect ownership of between 20% and 50% of the voting shares, are carried on the equity basis of accounting and are included in investment securities in the Consolidated Balance Sheet. The Bank's share of earnings of such corporations is included in interest income from securities in the Consolidated Statement of Income.

### Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the end of the financial year, except for the following, which are recorded at historical Canadian dollar cost: land, buildings and equipment and foreign currency equity investments not funded in the same currency as the investments. All revenues and expenses denominated in foreign

currencies are translated using average exchange rates except for depreciation, which is based on the historical Canadian dollar cost of the related assets.

Unrealized translation gains and losses which arise upon consolidation of net foreign currency investment positions in branches, subsidiaries and associated corporations, net of applicable income taxes, together with any gains or losses arising from hedges of those net investment positions, are credited or charged to retained earnings, except as noted below. Upon sale or substantial liquidation of an investment position, the previously recorded unrealized gains or losses thereon are transferred from retained earnings to the Consolidated Statement of Income.

Translation gains and losses arising from self-sustaining subsidiaries and branches operating in highly inflationary environments, if any, are included in other income – investment banking in the Consolidated Statement of Income.

### Precious metals

Precious metals are carried at market value and are included in cash resources in the Consolidated Balance Sheet. The liability arising from outstanding certificates is also carried at market value and included in other liabilities in the Consolidated Balance Sheet.

### Securities

Securities are held in either the investment or trading portfolio.

Investment securities comprise debt and equity securities held for liquidity and longer term investment. Equity securities in which the Bank's holdings of voting shares are less than 20% are carried at cost, except where significant influence is demonstrated. Debt securities held in the investment account are carried at amortized cost with premiums and discounts being amortized to income over the period to maturity. When there has been a decline in value of debt or equity securities that is other than temporary, the carrying value of the securities is appropriately reduced. Such reductions, if any, together with gains and losses on disposals are included in other income – net gain on investment securities in the Consolidated Statement of Income.

Included in the investment portfolio are bonds received from the conversion of loans to designated emerging markets which are recorded at their face value net of the related country risk provision. Loan substitute securities are customer financings which have been restructured as after-tax investments rather than conventional loans in order to provide the issuers with a lower borrowing rate. Such securities are accorded the accounting treatment applicable to loans.

Trading securities are intended to be held for a short period of time and are carried at market value. Gains and losses on disposal and adjustments to market value are included in other income – investment banking in the Consolidated Statement of Income.

### Loans

Loans are stated net of any unearned income and of an allowance for credit losses. Interest income is accounted for on the accrual basis for all loans other than impaired loans. Accrued interest is included in other assets in the Consolidated Balance Sheet.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is con-



tractually 90 days in arrears, the loan will be classified as impaired, if not already classified as such, unless the loan is fully secured, the collection of the debt is in process and the collection efforts are reasonably expected to result in repayment of the loan or in restoring it to a current status within 180 days from the date a payment has become contractually in arrears. Finally, a loan that is contractually 180 days in arrears is classified as impaired in all situations, except when it is guaranteed or insured by the Canadian government, the provinces or a Canadian government agency; such loans are classified as impaired if the loan is contractually in arrears for 365 days. Any credit card loan that has a payment that is contractually 180 days in arrears is written off.

When a loan is classified as impaired, recognition of interest ceases. For those sovereign risk loans to which the related country risk provision applies, interest continues to be accrued in income, except when the loans are classified as impaired. Interest received on impaired loans is credited to the carrying value of the loan.

Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Loan fees are recognized in income over the appropriate lending or commitment period. Loan syndication fees are included in credit fees in other income when the syndication is completed.

#### **Assets purchased/sold under resale/repurchase agreements**

The purchase and sale of securities under resale and repurchase agreements are treated as collateralized lending and borrowing transactions. The related interest income and interest expense are recorded on an accrual basis.

#### **Allowance for credit losses**

The Bank maintains an allowance for credit losses, which in management's opinion, is adequate to absorb all credit-related losses in its portfolio of both on and off-balance sheet items, including deposits with other banks, loan substitute securities, assets purchased under resale agreements, loans, acceptances, derivative instruments and other indirect credit commitments, such as letters of credit and guarantees. The allowance for credit losses consists of specific provisions, a general provision, and a country risk provision, each of which is reviewed on a regular basis. The allowance for credit losses against on-balance sheet items is included as a reduction of the related asset category, and allowances relating to off-balance sheet items are included in other liabilities in the Consolidated Balance Sheet.

Specific provisions, except those relating to credit card loans and certain personal loans, are determined on an item-by-item basis and reflect the associated estimated credit loss. In the case of loans, the specific provision is the amount that is required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is measured by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, either the fair value of any security underlying the loan, net of expected costs of realization and any amounts legally required to be paid to the borrower, or the observable market price for the loan is used to measure the estimated realizable amount. The change in the present value attributable to the passage of time on the expected future cash flows is reported as a reduction of the provision for credit losses in the Consolidated Statement of Income. Specific provisions for credit card loans and certain per-

sonal loans are calculated using a formula method taking into account recent loss experience.

The general provision is established against the loan portfolio in respect of the Bank's core business lines where a prudent assessment by the Bank of past experience and existing economic and portfolio conditions indicate that losses have occurred, but where such losses cannot be determined on an item-by-item basis. The general provision is determined by using historical trends in loss experience, weighted to emphasize recent periods, and the current portfolio profile together with management's evaluation of other conditions existing at the balance sheet date which are not reflected in historical trends. In accordance with a specification from the Superintendent, the Bank charged a portion of the 1999 increase to the general provision, net of income taxes, to retained earnings, as described in Note 22.

The country risk provision is maintained in accordance with instructions issued by the Superintendent based on total transborder exposure to a prescribed group of countries. In accordance with those instructions, any new exposures to those designated emerging markets after October 31, 1995, are subject to the same procedures as those used for determining specific provisions referred to above.

#### **Loan securitizations**

When the Bank enters into a transaction to transfer loans to an unrelated third party, the Bank treats the transfer as a sale, provided that the significant risks and rewards of ownership have been transferred and there is reasonable assurance regarding the measurement of the consideration derived. If the above criteria are not satisfied, then the transfer is treated as a financing transaction. If treated as a sale, the loan assets are removed from the Consolidated Balance Sheet. The sales proceeds are recorded based on the fair value of the loans sold. In determining the gain or loss on sale, issuance costs are deducted from the sale proceeds. Losses on sales are recognized immediately. Gains on sales are recognized immediately, unless there is recourse to the Bank in excess of the expected losses, in which case the gains on sales are considered unrealized and deferred until collected in cash and there is no recourse to that cash. Where the Bank continues to service the loans sold, a normal servicing fee is recognized over the servicing period as earned. Net gains and losses on securitizations and servicing fee revenues are reported in other income – securitization revenues in the Consolidated Statement of Income.

#### **Acceptances**

The Bank's potential liability under acceptances is reported as a liability in the Consolidated Balance Sheet. The Bank has equal and offsetting claims against its customers in the event of a call on these commitments, which are reported as an asset. Fees earned are reported in other income – credit fees in the Consolidated Statement of Income.

#### **Land, buildings and equipment**

Land is carried at cost. Buildings, equipment and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the related asset as follows: buildings – 40 years, equipment – 3 to 10 years, and leasehold improvements – term of lease plus one renewal option period.

Net gains and losses on disposal are included in other income – other, in the Consolidated Statement of Income, in the year of disposal.

## **Income taxes**

The Bank follows the tax allocation basis of accounting for income taxes, whereby income tax provisions or recoveries are recorded in the years the income and expense are recognized for accounting purposes, regardless of when related taxes are actually paid or recovered.

These provisions or recoveries include the income taxes applicable to income included in the Consolidated Statement of Income and amounts charged or credited directly to retained earnings. Deferred income taxes, accumulated as a result of timing differences, are included in other assets or other liabilities in the Consolidated Balance Sheet as applicable.

## **Derivative instruments**

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. Most derivative instruments can be characterized as interest rate contracts, foreign exchange contracts, commodity contracts or equity contracts. Derivative instruments are either exchange-traded contracts or negotiated over-the-counter contracts. Exchange-traded derivatives include futures and option contracts. Negotiated over-the-counter derivatives include swaps, forwards and options.

The Bank enters into these derivative instruments to accommodate the risk management needs of its customers, for proprietary trading and for asset/liability management purposes.

Derivative instruments designated as “trading” include derivatives entered into with customers to accommodate their risk management needs and derivatives transacted to generate trading income from the Bank’s proprietary trading positions. Trading derivatives are carried at their fair values [see Note 20(d)]. The gains and losses resulting from changes in fair values are included in other income – investment banking in the Consolidated Statement of Income. Unrealized gains and unrealized losses on trading derivatives are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheet.

Derivative instruments designated as “asset/liability management” are those used to manage the Bank’s interest rate and foreign currency exposures, which include instruments designated as hedges. Income and expense on these derivatives are recognized over the life of the related position as an adjustment to net interest income. If designated hedges are no longer effective, the derivative instrument is reclassified as trading and subsequently marked to market. Gains and losses from effective hedges, as well as those on terminated contracts, are deferred and amortized over the remaining life of the related position. Accrued income and expense and deferred gains and losses are included in other assets and other liabilities, as appropriate in the Consolidated Balance Sheet.

## **Pensions and other post-retirement benefits**

The Bank maintains pension plans to provide benefits to employees in Canada, the United States and other international

operations. Assets of the pension funds are valued using a valuation method that spreads all realized and unrealized capital gains and losses over a five-year period. An actuarial valuation is performed each year to determine the present value of the accrued pension obligations based on management’s best estimates of various assumptions, such as projected employee compensation levels and rates of return on investments.

The cumulative difference between pension expense and funding contributions is included in other assets or other liabilities, as appropriate, in the Consolidated Balance Sheet.

Pension expense is comprised of (a) the actuarially determined pension benefits for the current year’s service, (b) imputed interest on the net funding excess or deficiency of the plan and (c) amortization of certain items over the expected average remaining service life of employees. The items amortized are experience gains and losses, amounts arising as a result of changes in assumptions and plan amendments, and the net funding excess at the date the current accounting policy was implemented.

The Bank also provides post-retirement benefits for employees which include health and dental care, and life insurance benefits. The cost of these benefits is included in pension contributions and other staff benefits in the Consolidated Statement of Income as paid by the Bank.

## **Stock-based compensation**

The Bank has a stock option plan and other stock-based compensation plans for certain eligible employees.

The Bank follows the intrinsic value method of accounting for stock options. Since the exercise price is set at an amount equal to the closing price on the day prior to the grant of the stock options, no compensation expense is recognized on the day of the grant. When options are exercised, the proceeds received by the Bank are credited to common shares in the Consolidated Balance Sheet.

The increase in the value of the Stock Appreciation Rights and Deferred Stock Units, arising from an increase in the market price of the Bank’s common shares underlying these compensation plans, is recorded in salaries expense in the Consolidated Statement of Income with a corresponding accrual in other liabilities in the Consolidated Balance Sheet.

The Bank’s required contributions to the Employee Share Ownership Plans are expensed in pension contributions and other staff benefits in the Consolidated Statement of Income.

## **Net income per common share**

Basic net income per common share is determined by dividing net income available to common shareholders as reported in the Consolidated Statement of Income by the average number of common shares outstanding. Fully diluted net income per common share reflects the potential dilutive effect of stock options granted under the Stock Option Plan.



## 2. Future accounting changes

### a) Corporate income taxes

The Canadian Institute of Chartered Accountants (CICA) issued a new accounting standard for income taxes, effective for fiscal year 2001.

The standard will require adoption of the liability method, whereby the measurement of future income tax assets and liabilities would be at the tax rates expected to apply when the asset is realized or the liability settled.

The Bank will adopt the new accounting standard on a retro-active basis, with no restatement of prior periods. As a result, an amount of \$39 million will be charged to opening retained earnings in the Consolidated Balance Sheet in fiscal year 2001 with an offsetting reduction to the net future income tax asset.

### b) Employee future benefits

The CICA issued a new accounting standard for employee future benefits, effective for fiscal year 2001.

For pension benefits, the new standard will require the use of current market interest rates to estimate the present value of the pension liability.

For employee future benefits other than pensions, the new standard will require the recognition of the employer's expected cost and obligation of providing post-retirement benefits, mainly health costs and life insurance, as employees earn the entitlement to benefits. The calculation of the obligation is similar to pensions in that it is actuarially based.

The Bank will adopt the new accounting standard on a prospective basis, with a transition date of November 1, 2000. The net transitional asset amount, estimated to be \$169 million, will be amortized in the Consolidated Statement of Income over the estimated average remaining service life of the employees of approximately 14 to 18 years.

### 3. Securities

As at October 31 (\$ millions)	Remaining term to maturity					2000	1999
	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	No specific maturity	Carrying value	Carrying value
<b>Investment securities:</b>							
Canadian federal government debt	\$ 188	\$ 2,402	\$ 832	\$ 44	\$ –	\$ 3,466	\$ 4,668
Canadian provincial and municipal debt	39	211	559	146	–	955	1,608
Foreign government debt	671	487	1,732	3,933	–	6,823	5,557
Bonds of designated emerging markets <sup>(1)</sup>	–	1	–	1,224	–	1,225	1,257
Other debt	158	247	1,872	770	–	3,047	2,958
Preferred shares	–	9	69	135	1,029 <sup>(2)</sup>	1,242	1,415
Common shares	–	–	–	–	2,378	2,378	1,889
Associated corporations	–	–	219	–	184 <sup>(3)</sup>	403	550
Loan substitute securities	15	–	11	–	–	26	128
<b>Total</b>	<b>1,071</b>	<b>3,357</b>	<b>5,294</b>	<b>6,252</b>	<b>3,591</b>	<b>19,565</b>	<b>20,030</b>
<b>Trading securities<sup>(4)</sup>:</b>							
Canadian federal government debt	144	473	3,077	1,394	–	5,088	3,355
Canadian provincial and municipal debt	111	132	449	1,084	–	1,776	1,326
Foreign government debt	403	142	198	303	–	1,046	680
Common shares	–	–	–	–	10,028	10,028	5,965
Other	1,383	542	918	887	153	3,883	2,613
<b>Total</b>	<b>2,041</b>	<b>1,289</b>	<b>4,642</b>	<b>3,668</b>	<b>10,181</b>	<b>21,821</b>	<b>13,939</b>
<b>Total securities</b>	<b>\$ 3,112</b>	<b>\$ 4,646</b>	<b>\$ 9,936</b>	<b>\$ 9,920</b>	<b>\$ 13,772</b>	<b>\$ 41,386</b>	<b>\$ 33,969</b>
<b>Total by currency (in Canadian equivalent):</b>							
Canadian dollar	\$ 1,696	\$ 3,310	\$ 5,144	\$ 3,297	\$ 10,702	\$ 24,149	\$ 19,051
U.S. dollar	447	659	3,741	5,850	2,773	13,470	11,546
Other currencies	969	677	1,051	773	297	3,767	3,372
<b>Total securities</b>	<b>\$ 3,112</b>	<b>\$ 4,646</b>	<b>\$ 9,936</b>	<b>\$ 9,920</b>	<b>\$ 13,772</b>	<b>\$ 41,386</b>	<b>\$ 33,969</b>

- (1) This includes restructured bonds of designated emerging markets after deducting a country risk provision of \$453 (1999 – \$482). Refer to Note 5.
- (2) Although these securities have no stated term, most of them provide the Bank with various means to retract or dispose of these shares on earlier dates.
- (3) Equity securities of associated corporations have no stated term and have been classified in the “No specific maturity” column.
- (4) Trading securities are carried at market value.

An analysis of unrealized gains and losses on investment securities is as follows:

As at October 31 (\$ millions)	2000				1999			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Canadian federal government debt	\$ 3,466	\$ 6	\$ 6	\$ 3,466	\$ 4,668	\$ 4	\$ 24	\$ 4,648
Canadian provincial and municipal debt	955	19	9	965	1,608	19	47	1,580
Foreign government debt	6,823	286	48	7,061	5,557	105	48	5,614
Bonds of designated emerging markets	1,225	409	–	1,634	1,257	308	–	1,565
Other debt	3,047	23	28	3,042	2,958	10	25	2,943
Preferred shares	1,242	16	25	1,233	1,415	19	20	1,414
Common shares	2,378	574	96	2,856	1,889	388	113	2,164
Associated corporations	403	–	–	403	550	–	–	550
Loan substitute securities	26	–	–	26	128	–	–	128
<b>Total investment securities</b>	<b>\$ 19,565</b>	<b>\$ 1,333</b>	<b>\$ 212</b>	<b>\$ 20,686</b>	<b>\$ 20,030</b>	<b>\$ 853</b>	<b>\$ 277</b>	<b>\$ 20,606</b>

The net unrealized gains on investment securities of \$1,121 million (1999 – \$576 million) decreased to \$863 million (1999 – \$300 million) after the net fair value of derivative instruments and other hedge amounts associated with these securities are taken into account.



#### 4. Loans

##### a) Loans outstanding

The Bank's loans net of unearned income and the allowance for credit losses in respect of loans are as follows:

As at October 31 (\$ millions)	2000	1999
Canada:		
Residential mortgages	\$ 47,384	\$ 46,161
Personal and credit cards	14,281	13,298
Business and governments	26,661	24,923
Assets purchased under resale agreements	9,170	7,506
	97,496	91,888
United States:		
Business and governments	23,768	21,654
Assets purchased under resale agreements	13,735	6,083
	37,503	27,737
Other international	34,757	28,833
	169,756	148,458
Less: allowance for credit losses	2,853	2,599
Total <sup>(1)</sup>	\$ 166,903	\$ 145,859

(1) Loans denominated in U.S. dollars amount to \$57,431 (1999 - \$45,633) and loans denominated in other foreign currencies amount to \$16,914 (1999 - \$13,544). Segmentation of assets is based upon the location of ultimate risk of the underlying assets.

##### b) Loans securitized

The outstanding securitized loans are as follows:

As at October 31 (\$ millions)	2000	1999
Residential mortgages	\$ 2,163	\$ 2,900
Personal loans	2,907	2,172
Credit card loans	1,990	1,990
Business loans	4,124	3,986
Total	\$ 11,184	\$ 11,048

#### 5. Impaired loans and allowance for credit losses

##### a) Impaired loans

						2000	1999
As at October 31 (\$ millions)	Gross <sup>(1)(2)</sup>	Specific provisions <sup>(1)</sup>		Country risk provision	General provision	Net	Net
		Individual	By group				
By loan type:							
Residential mortgages	\$ 201	\$ (23)	\$ -	\$ -	\$ -	\$ 178	\$ 145
Personal and credit cards	315	(8)	(214)	-	-	93	127
Business and governments:							
Real estate	5	(3)	-	-	-	2	73
Other businesses	2,220	(1,254)	-	-	-	966	799
Designated emerging markets	24	-	-	(24)	-	-	-
General provision (Note 22)	-	-	-	-	(1,300)	(1,300)	(1,300)
Total	\$ 2,765	\$ (1,288)	\$ (214)	\$ (24)	\$ (1,300)	\$ (61)	\$ (156)
By geography:							
Canada						\$ 325	\$ 435
United States						421	399
Other international						493	310
Net impaired loans before general provision						1,239	1,144
General provision (Note 22)						(1,300)	(1,300)
Net						\$ (61)	\$ (156)

(1) Included in the gross impaired loans and the specific provisions are foreclosed assets held for sale of \$36 (1999 - \$45) and \$20 (1999 - \$23) respectively.

(2) Gross impaired loans denominated in U.S. dollars amount to \$1,626 (1999 - \$1,315) and those denominated in other foreign currencies amount to \$487 (1999 - \$258).

## b) Allowance for credit losses

As at October 31 (\$ millions)	Specific provisions	Country risk provision <sup>(1)</sup>	General provision	2000	1999	1998
Balance, beginning of year	\$ 1,236	\$ 545	\$ 1,300	\$ 3,081	\$ 2,441	\$ 2,078
Newly acquired subsidiaries – balance at date of acquisition <sup>(2)</sup>	153	–	–	153	–	160
Write-offs <sup>(3)</sup>	(781)	(59)	–	(840)	(658)	(565)
Recoveries	113	–	–	113	138	57
Provision for credit losses charged to income	765	–	–	765	635	595
Provision for credit losses charged to retained earnings (Note 22)	–	–	–	–	550	–
Other, including foreign currency adjustment <sup>(4)</sup>	16	18	–	34	(25)	116
Balance, end of year	\$ 1,502	\$ 504	\$ 1,300	\$ 3,306	\$ 3,081	\$ 2,441

(1) Includes \$453 (1999 – \$482; 1998 – \$507) which has been deducted from securities.

(2) The balance for 2000 primarily relates to the acquisition of Banco Sud Americano in Chile, refer to Note 21. The balance for 1998 relates to the acquisition of Banco Quilmes in Argentina.

(3) Write-offs of loans restructured during the year was \$3 (1999 – nil; 1998 – \$11).

(4) This adjustment includes the effect of hedging the provision for credit losses of foreign currency denominated loans.

## 6. Land, buildings and equipment

As at October 31 (\$ millions)			2000	1999
	Cost	Accumulated depreciation & amortization	Net book value	Net book value
Land	\$ 243	\$ –	\$ 243	\$ 228
Buildings	925	318	607	638
Equipment	2,252	1,672	580	601
Leasehold improvements	565	364	201	214
Total	\$ 3,985	\$ 2,354	\$ 1,631	\$ 1,681

Depreciation and amortization in respect of the above buildings, equipment and leasehold improvements for the year amounted to \$267 million (1999 – \$254 million; 1998 – \$225 million).

## 7. Other assets

As at October 31 (\$ millions)	2000	1999
Unrealized gains on trading derivatives	\$ 8,244	\$ 8,039
Accrued interest	2,939	2,288
Accounts receivable	610	794
Deferred income taxes	922	946
Identifiable intangibles	199	224
Goodwill	297	138
Other	2,489	2,475
Total	\$ 15,700	\$ 14,904



## 8. Deposits

As at October 31 (\$ millions)	Payable on demand	Payable after notice	Payable on a fixed date	2000	1999
Canada:					
Personal	\$ 2,001	\$ 13,801	\$ 42,734	\$ 58,536	\$ 56,636
Business and governments	6,958	6,365	20,397	33,720	28,803
Banks	85	—	699	784	530
	9,044	20,166	63,830	93,040	85,969
United States:					
Personal	8	145	1,011	1,164	935
Business and governments	152	68	21,196	21,416	17,243
Banks	36	—	5,033	5,069	4,200
	196	213	27,240	27,649	22,378
Other international:					
Personal	400	3,639	5,233	9,272	8,144
Business and governments	2,011	1,013	18,820	21,844	18,024
Banks	436	282	21,377	22,095	22,103
	2,847	4,934	45,430	53,211	48,271
Total <sup>(1)</sup>	\$ 12,087	\$ 25,313	\$ 136,500	\$ 173,900	\$ 156,618

(1) Deposits denominated in U.S. dollars amount to \$64,709 (1999 – \$57,519) and deposits denominated in other foreign currencies amount to \$25,240 (1999 – \$22,161). Segmentation of deposits is based upon residency of depositor.

## 9. Other liabilities

As at October 31 (\$ millions)	2000	1999
Unrealized losses on trading derivatives	\$ 8,715	\$ 8,651
Accrued interest	3,307	3,223
Accounts payable and accrued expenses	1,686	1,376
Deferred income	430	323
Liabilities of subsidiaries, other than deposits	1,802	656
Gold and silver certificates	3,189	2,956
Cheques and other items in transit, net	457	60
Other	3,715	3,073
Total	\$ 23,301	\$ 20,318

## 10. Non-controlling interest in subsidiaries

As at October 31 (\$ millions)	2000	1999
Non-controlling interest in common equity of subsidiaries	\$ 229	\$ 198
Scotiabank Trust Securities – Series 2000-1 <sup>(1)</sup> issued by BNS Capital Trust	500	—
Total	\$ 729	\$ 198

(1) During 2000, BNS Capital Trust, a wholly-owned special purpose closed-end trust, issued \$500 million of Scotiabank Trust Securities – Series 2000-1, which qualify as Tier 1 capital of the Bank under the Superintendent's Capital Adequacy Guideline. Refer to Note 12 (9).

## 11. Subordinated debentures

These debentures are direct, unsecured obligations of the Bank and are subordinate to the claims of the Bank's depositors and other creditors. The Bank, where appropriate, enters into interest rate and cross currency swaps to hedge the related risks. The outstanding debentures as at October 31 are:

*As at October 31 (\$ millions)*

Maturity date	Interest rate (%)	Terms <sup>(1)</sup> (currency in millions)	2000	1999
March, 2001	11.4		\$ 4	\$ 4
March, 2001	10.75		35	35
July, 2001	10.35	Redeemable at any time	43	43
March, 2003	8.1		116	116
May, 2003	6.875	US \$250	381	368
December, 2006	6.0	Redeemable at any time. After December 4, 2001, interest will be payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%	350	350
June, 2007	6.25	Redeemable at any time. After June 12, 2002, interest will be payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%	300	300
July, 2007	6.5	US \$500. Redeemable on any interest payment date on or after July 15, 2002. After July 15, 2002, interest will be payable at an annual rate equal to the US dollar three-month LIBOR rate plus 1%	761	736
April, 2008	5.4	Redeemable at any time. After April 1, 2003, interest will be payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%	600	600
September, 2008	6.25	US \$250	380	368
February, 2011	7.4	Redeemable on or after February 8, 2001. After February 8, 2006, interest will be payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%	300	300
July, 2012	6.25	Redeemable at any time. After July 16, 2007, interest will be payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%	500	500
July, 2013	5.65	Redeemable at any time. After July 22, 2008, interest will be payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%	425	425
September, 2013	8.3	Redeemable at any time	250	250
May, 2014	5.75	Redeemable at any time. After May 12, 2009, interest will be payable at an annual rate equal to the 90 day bankers' acceptance rate plus 1%	350	350
June, 2025	8.9	Redeemable on or after June 20, 2000	250	250
August, 2085	Floating	US \$214 (1999 US \$258) bearing interest at a floating rate of the offered rate for six-month Eurodollar deposits plus 0.125%; redeemable on any interest payment date	325	379
<b>Total</b>			<b>\$ 5,370</b>	<b>\$ 5,374</b>

The aggregate maturities of the debentures are as follows (\$ millions):

Less than 1 year	\$ 82
From 1 to 2 years	–
From 2 to 3 years	497
From 3 to 4 years	–
From 4 to 5 years	–
From 5 to 10 years	2,391
Over 10 years	2,400
	<u>\$ 5,370</u>

(1) In accordance with the provisions of the Capital Adequacy Guideline of the Superintendent, all redemptions are subject to regulatory approval.



## 12. Capital stock

### Authorized:

- Preferred Shares: An unlimited number of shares without nominal or par value, the aggregate consideration of which shall not exceed \$4 billion.
- Common Shares: An unlimited number of shares without nominal or par value, the aggregate consideration of which shall not exceed \$5 billion.

Issued and fully paid as at October 31 (\$ millions)	2000		1999	
	Number of shares outstanding	Amount	Number of shares outstanding	Amount
<b>Preferred Shares:</b>				
Series 6 <sup>(1)</sup>	12,000,000	\$ 300	12,000,000	\$ 300
Series 7 <sup>(2)</sup>	8,000,000	200	8,000,000	200
Series 8 <sup>(3)</sup>	9,000,000	225	9,000,000	225
Series 9 <sup>(4)</sup>	10,000,000	250	10,000,000	250
Series 10 <sup>(5)</sup>	7,100	—	7,100	—
Series 11 <sup>(6)</sup>	9,992,900	250	9,992,900	250
Series 12 <sup>(7)</sup>	12,000,000	300	12,000,000	300
Total issued by the Bank	61,000,000	\$ 1,525	61,000,000	\$ 1,525
Issued by Scotia Mortgage Investment Corporation <sup>(8)</sup>	250,000	250	250,000	250
<b>Total Preferred Shares<sup>(9)</sup></b>	<b>61,250,000</b>	<b>\$ 1,775</b>	<b>61,250,000</b>	<b>\$ 1,775</b>
<b>Common Shares:</b>				
Outstanding at beginning of year	494,251,965	\$ 2,678	492,088,772	\$ 2,625
Issued under Shareholder Dividend and Share Purchase Plan <sup>(10)</sup>	1,200,368	40	1,034,923	35
Issued under Stock Option Plan (Note 13)	2,512,400	47	1,128,270	18
Outstanding at end of year	497,964,733	\$ 2,765	494,251,965	\$ 2,678
<b>Total capital stock</b>		<b>\$ 4,540</b>		<b>\$ 4,453</b>

- (1) Series 6 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.446875. With regulatory approval, the shares may be redeemed by the Bank on or after October 29, 2002, in whole or in part, by either the payment of cash or the issuance of common shares. On and after April 28, 2003, the Series 6 Preferred Shares will be convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.
- (2) Series 7 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.44375. With regulatory approval, the shares may be redeemed by the Bank on or after July 29, 2002, in whole or in part, at declining premiums, by either the payment of cash or the issuance of common shares. On and after January 27, 2005, the Series 7 Preferred Shares will be convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.
- (3) Series 8 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.4375. With regulatory approval, the shares may be redeemed by the Bank on or after January 29, 2003, in whole or in part, at declining premiums, by either the payment of cash or the issuance of common shares. On and after July 27, 2005, the Series 8

Preferred Shares will be convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.

- (4) Series 9 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.421875. With regulatory approval, the shares may be redeemed by the Bank on or after April 28, 2003, in whole or in part, at declining premiums, by either the payment of cash or the issuance of common shares. On and after October 27, 2005, the Series 9 Preferred Shares will be convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.
- (5) Series 10 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly in an amount per share of \$0.02. With regulatory approval, the shares may be redeemed by the Bank at par on or after April 26, 2001, in whole or in part, by the payment in cash of \$10.00 for each such share together with declared and unpaid dividends to the redemption date.
- (6) Series 11 Non-cumulative Preferred Shares are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.375. With regulatory approval, the shares may be redeemed by the Bank on or after January 28, 2004, in whole or in part, by either the payment of cash or the issuance of common shares. On and after January 27, 2006, the Series 11 Preferred Shares will be

- convertible at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.
- (7) Series 12 Non-cumulative Preferred Shares, issued on July 14, 1998, are entitled to non-cumulative preferential cash dividends payable quarterly in an amount per share of \$0.328125. With regulatory approval, the shares may be redeemed by the Bank at par on or after October 29, 2013, in whole or in part, by the payment in cash of \$25.00 per share, together with declared and unpaid dividends to the date fixed for redemption.
- (8) Scotia Mortgage Investment Corporation, a wholly-owned subsidiary of the Bank, issued Class A Preferred Shares which are entitled to non-cumulative preferential cash dividends, if and when declared, payable semi-annually in an amount per share of \$32.85. With regulatory approval, on or after October 31, 2007, Class A Preferred Shares may be redeemed in whole by the payment of cash by Scotia Mortgage Investment Corporation or, at the option of the Bank, exchanged for common shares of the Bank. On or after October 31, 2007, the Class A Preferred Shares will be exchangeable at the option of the holder into common shares of the Bank, subject to the right of the Bank prior to the exchange date to purchase for cash or find substitute purchasers for such shares. Under certain circumstances the Class A Preferred Shares of Scotia Mortgage Investment Corporation will be automatically exchanged, without the consent of the holder, into Series Z Non-cumulative Preferred Shares of the Bank which would bear the same dividend rate and similar redemption features.
- (9) On April 4, 2000, BNS Capital Trust, a wholly-owned closed-end trust, issued 500,000 Scotiabank Trust Securities – 2000-1 (“Scotia BaTS”). These securities are exchangeable into Non-cumulative Preferred Shares Series Y of the Bank in certain circumstances.
- Each Scotia BaTS is entitled to receive non-cumulative fixed cash distributions payable semi-annually in an amount per Scotia BaTS of \$36.55. The first of such cash distributions will be paid on December 31, 2000, in an amount of \$54.27 per Scotia BaTS. Should the Bank fail to declare regular dividends on any of its directly issued outstanding preferred or common shares, cash distributions will not be made on the Scotia BaTS.
- The Scotia BaTS, with regulatory approval, may be redeemed in whole prior to June 30, 2005, upon the occurrence of certain tax or regulatory capital changes, or on or after June 30, 2005, at the option of BNS Capital Trust. On or after June 30, 2011, the Scotia BaTS may be exchanged, at the option of the holder into Non-cumulative Preferred Shares Series Y of the Bank, subject to the right of the Bank prior to the exchange date to purchase for cash or find substitute purchasers for such securities. These Non-cumulative Preferred Shares Series Y would pay a dividend rate equivalent to the cash distribution rate of the Scotia BaTS. Under certain circumstances, the Scotia BaTS would be automatically exchanged without the consent of the holder, into Non-cumulative Preferred Shares Series Y of the Bank. See Note 10, non-controlling interest in subsidiaries.
- (10) As at October 31, 2000, common shares totalling 12,476,138 have been reserved for future issue under terms of the Shareholder Dividend and Share Purchase Plan.

### Restrictions on dividend payments

Under the Bank Act, the Bank is prohibited from declaring any dividends on its common or preferred shares when the Bank is, or would be placed by such a declaration, in contravention of the capital adequacy, liquidity or any other regulatory directives issued under the Bank Act. In addition, common share dividends cannot be paid unless all dividends to which preferred shareholders are then entitled to have been paid or sufficient funds have been set aside to do so.

In the event that applicable cash distributions on the Scotia BaTS are not paid on a regular distribution date, the Bank has undertaken not to declare dividends of any kind on its preferred or common shares.



### 13. Stock-based compensation

#### a) Stock Option Plan

Under terms of the Stock Option Plan, options to purchase common shares may be granted to selected employees at an exercise price not less than the closing price of Bank of Nova Scotia common shares on the Toronto Stock Exchange (TSE) on the day prior to the date of the grant. These options vest evenly over a four-year period and are exercisable no later than 10 years after the date of the grant. Outstanding options expire on dates ranging from June 3, 2004 to March 3, 2010.

A total of 49,000,000 shares were reserved for issuance under this plan, of which 6,858,137 shares have been issued as a result of the exercise of options.

A summary of the Bank's stock options is as follows:

	2000		1999		1998 <sup>(1)</sup>	
	Number of stock options (000's)	Weighted average exercise price	Number of stock options (000's)	Weighted average exercise price	Number of stock options (000's)	Weighted average exercise price
<i>As at October 31</i>						
Outstanding at beginning of year	22,449	\$ 26.29	17,895	\$ 23.81	13,915	\$ 18.91
Granted	6,026	28.35	5,904	31.64	5,259	35.10
Exercised	(2,512)	18.79	(1,128)	15.85	(1,047)	16.26
Forfeited	(642)	26.83	(222)	21.87	(232)	20.20
Outstanding at end of year	25,321	\$ 27.51	22,449	\$ 26.29	17,895	\$ 23.81
Exercisable at end of year	11,401	\$ 23.98	9,260	\$ 20.35	6,363	\$ 16.83
Available for grant	16,821		22,205		2,887	

(1) Option amounts have been restated to reflect the two-for-one stock split on February 12, 1998.

The stock options outstanding and exercisable, by exercise price, are as follows:

<i>As at October 31, 2000</i>	Options Outstanding			Options Exercisable	
	Number of stock options (000's)	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of stock options (000's)	Weighted average exercise price
Range of exercise prices					
\$13.25 to \$16.525	4,893	5.0	\$ 15.36	4,893	\$ 15.36
\$26.05 to \$35.10	20,428	8.0	\$ 30.42	6,508	\$ 30.47
	25,321	7.4	\$ 27.51	11,401	\$ 23.98

#### b) Other stock-based compensation plans

The Bank has three other stock-based compensation plans which resulted in a total charge of \$74 million in 2000 (1999 – \$18 million; 1998 – \$38 million) recorded in salaries and other benefits in the Consolidated Statement of Income. Descriptions of these plans are as follows:

##### Employee Share Ownership Plans

Qualifying employees can contribute up to the lesser of a specified percentage of salary and a maximum dollar amount towards the purchase of common shares of the Bank or deposits with the Bank. The Bank matches 50% of qualifying contributions. All contributions are used by the plan trustee to purchase common shares in the open market.

##### Stock Appreciation Rights (SARs)

Stock Appreciation Rights (SARs) are granted instead of stock options to selected employees in countries where local laws may restrict the Bank from granting options. SARs are based on notional stock units valued at the closing price of Bank of Nova Scotia

common shares on the TSE on the day prior to the date of the grant. The SARs have vesting and exercise terms and conditions similar to the stock options. When a SAR is exercised, the Bank pays the appreciation amount in cash equal to the rise in the market price of the Bank's common shares since the grant date. During fiscal 2000, 1,455,000 SARs were granted, (1999 – 1,365,700; 1998 – 1,189,000), and as at October 31, 2000, 5,444,095 SARs were outstanding, of which 2,196,370 SARs were vested.

##### Deferred Stock Unit Plan (DSU)

Under the DSU Plan, senior officers may elect to receive all or a portion of their cash bonus under the Management Incentive Plan in the form of deferred stock units. The initial value of each unit is based on the closing price of Bank of Nova Scotia common shares on the TSE on the notification date. These units accumulate dividend equivalents in the form of additional units based on the dividends paid on the Bank's common shares. Units are redeemable only when an officer ceases to be a Bank employee and must be redeemed within one year thereafter. As at October 31, 2000, 258,420 units were outstanding (1999 – 107,202; 1998 – nil).

## 14. Income taxes

### Components of income tax provision

For the year ended October 31 (\$ millions)	2000	1999	1998
Provision for income taxes in the Consolidated Statement of Income:			
Current	\$ 956	\$ 893	\$ 851
Deferred	34	(26)	(89)
	990	867	762
Provision for deferred income taxes in the Consolidated Statement of Changes in Shareholders' Equity:			
Unrealized foreign currency gains and losses and other	\$ 9	\$ 13	\$ (66)
Increase in general provision for credit losses (Note 22)	—	(236)	—
	9	(223)	(66)
Total provision for income taxes	\$ 999	\$ 644	\$ 696
Current income taxes:			
Domestic:			
Federal	\$ 405	\$ 300	\$ 315
Provincial	220	232	183
Foreign	331	361	353
	956	893	851
Deferred income taxes:			
Domestic:			
Federal	28	(171)	(134)
Provincial	12	(86)	(16)
Foreign	3	8	(5)
	43	(249)	(155)
Total income taxes	\$ 999	\$ 644	\$ 696

### Reconciliation to statutory rate

Income taxes in the Consolidated Statement of Income vary from the amounts that would be computed by applying the composite federal and provincial statutory income tax rate for the following reasons:

For the year ended October 31 (\$ millions)	2000		1999		1998	
	Amount	Percent of pre-tax income	Amount	Percent of pre-tax income	Amount	Percent of pre-tax income
Income taxes at statutory rate	\$ 1,267	42.5%	\$ 1,055	42.8%	\$ 939	42.8%
Increase (decrease) in income taxes resulting from:						
Lower average tax rate applicable to subsidiaries, associated corporations, and foreign branches	(230)	(7.7)	(164)	(6.6)	(173)	(7.8)
Tax-exempt income from securities	(96)	(3.2)	(74)	(3.0)	(66)	(3.0)
Other, net	49	1.6	50	2.0	62	2.8
Total income taxes and effective tax rate	\$ 990	33.2%	\$ 867 <sup>(1)</sup>	35.2% <sup>(1)</sup>	\$ 762	34.8%

(1) If the increase in general provision discussed in Note 22 had been charged to income, total income taxes would have been \$631 and the effective tax rate would have been 33.0%.

### Deferred income taxes

The tax effects of timing differences which give rise to the net deferred income tax asset reported in other assets are as follows:

As at October 31 (\$ millions)	2000	1999
Deferred income tax asset:		
Allowance for credit losses	\$ 623	\$ 647
Deferred income	126	105
Securities	141	128
Other	360	382
	1,250	1,262
Deferred income tax liability:		
Premises and equipment	56	69
Pension fund	146	165
Other	126	82
	328	316
Net deferred income tax asset	\$ 922	\$ 946

The Bank has reasonable assurance that its net deferred income tax asset will be realized through future reversals of timing differences.



## 15. Pensions

The Bank operates several pension plans on behalf of its employees. The most recent actuarial valuation was prepared as of November 1, 1999. Total pension fund assets as at October 31, 2000, were \$2,976 million (1999 – \$2,724 million). The present value of

accrued pension benefits attributed to service rendered to October 31, 2000, was approximately \$2,275 million (1999 – \$2,156 million).

## 16. Related party transactions

In the ordinary course of business, the Bank provides to its associated corporations normal banking services on terms similar

to those offered to non-related parties.

## 17. Segmented results of operations

Scotiabank is a diversified financial services institution that provides a wide range of financial products and services to retail, commercial and corporate customers around the world. The Bank is organized into three main operating segments: Domestic Banking, International Banking, and Scotia Capital.

Domestic Banking provides a comprehensive array of retail and commercial banking services through branch and electronic delivery channels, to individuals and small to medium-sized businesses in Canada. The retail services include: consumer and mortgage lending, credit and debit card services, savings, chequing and retirement deposit products, personal trust services, retail brokerage, mutual funds and transaction services. In addition to credit, commercial clients are provided with deposit and cash management services.

International Banking supplies retail and commercial banking services through branches, subsidiaries and foreign affiliates. The products and services offered are generally the same as those in Domestic Banking.

Scotia Capital is an integrated corporate and investment bank which services the credit, capital market and risk management needs of the Bank's global relationships with large corporations, financial institutions and governments. The services provided include: credit

and related products, debt and equity underwriting, foreign exchange, derivative products, precious and base metals products and financial advisory services. Also, it conducts trading activities for its own account and manages the short-term funding of the Bank.

The Other category represents smaller operating segments, including Group Treasury and other corporate items which are not allocated to an operating segment.

The results of these business segments are based upon the internal financial reporting systems of the Bank. The accounting policies used in these segments are generally consistent with those followed in the preparation of the consolidated financial statements as disclosed in Note 1. The only notable accounting measurement difference is the grossing up of tax-exempt net interest income to an equivalent before-tax basis for those affected segments.

Because of the complexity of the Bank, various estimates and allocation methodologies are used in the preparation of the business segment financial information. The assets and liabilities are transfer priced at wholesale market rates, and corporate expenses are allocated to each segment based on utilization. As well, capital is apportioned to the business segments on a risk-based methodology. Transactions between segments are recorded within segment results as if conducted with a third party and are eliminated on consolidation.

*For the year ended October 31, 2000*

<i>(\$ millions) taxable equivalent basis</i>	Domestic Banking	International Banking	Scotia Capital	Other <sup>(1)</sup>	Total
Net interest income	\$ 2,932	\$ 1,371	\$ 1,385	\$ (489)	\$ 5,199
Provision for credit losses	(210)	(185)	(412)	42	(765)
Other income	1,706	451	1,001	507	3,665
Net interest and other income	4,428	1,637	1,974	60	8,099
Amortization of capital assets and goodwill	(168)	(58)	(24)	(45)	(295)
Other non-interest expenses	(2,804)	(999)	(885)	(136)	(4,824)
Income before the undernoted:	1,456	580	1,065	(121)	2,980
Provision for income taxes	(574)	(173)	(415)	172	(990)
Non-controlling interest in net income of subsidiaries	–	(43)	–	(21)	(64)
<b>Net income</b>	<b>\$ 882</b>	<b>\$ 364</b>	<b>\$ 650</b>	<b>\$ 30</b>	<b>\$ 1,926</b>
<b>Total average assets (\$ billions)</b>	<b>\$ 89</b>	<b>\$ 31</b>	<b>\$ 101</b>	<b>\$ 18</b>	<b>\$ 239</b>

For the year ended October 31, 1999<sup>(2)</sup>

(\$ millions) taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other <sup>(1)</sup>	Total
Net interest income	\$ 2,778	\$ 1,083	\$ 1,200	\$ (389)	\$ 4,672
Provision for credit losses	(269)	(115)	(136)	(115) <sup>(3)</sup>	(635) <sup>(3)</sup>
Other income	1,472	402	974	335	3,183
Net interest and other income	3,981	1,370	2,038	(169)	7,220
Amortization of capital assets and goodwill	(161)	(47)	(31)	(38)	(277)
Other non-interest expenses	(2,742)	(823)	(765)	(149)	(4,479)
Income before the undernoted:	1,078	500	1,242	(356)	2,464
Provision for income taxes	(429)	(158)	(497)	217	(867)
Non-controlling interest in net income of subsidiaries	—	(46)	—	—	(46)
<b>Net income</b>	<b>\$ 649</b>	<b>\$ 296</b>	<b>\$ 745</b>	<b>\$ (139)<sup>(3)</sup></b>	<b>\$ 1,551<sup>(3)</sup></b>
<b>Total average assets (\$ billions)</b>	<b>\$ 86</b>	<b>\$ 26</b>	<b>\$ 97</b>	<b>\$ 20</b>	<b>\$ 229</b>

For the year ended October 31, 1998<sup>(2)</sup>

(\$ millions) taxable equivalent basis	Domestic Banking	International Banking	Scotia Capital	Other <sup>(1)</sup>	Total
Net interest income	\$ 2,800	\$ 1,003	\$ 859	\$ (285)	\$ 4,377
Provision for credit losses	(303)	(155)	(44)	(93)	(595)
Other income	1,354	335	840	329	2,858
Net interest and other income	3,851	1,183	1,655	(49)	6,640
Amortization of capital assets and goodwill	(136)	(39)	(32)	(41)	(248)
Other non-interest expenses	(2,635)	(675)	(826)	(62)	(4,198)
Income before the undernoted:	1,080	469	797	(152)	2,194
Provision for income taxes	(439)	(183)	(314)	174	(762)
Non-controlling interest in net income of subsidiaries	—	(38)	—	—	(38)
<b>Net income</b>	<b>\$ 641</b>	<b>\$ 248</b>	<b>\$ 483</b>	<b>\$ 22</b>	<b>\$ 1,394</b>
<b>Total average assets (\$ billions)</b>	<b>\$ 80</b>	<b>\$ 23</b>	<b>\$ 89</b>	<b>\$ 22</b>	<b>\$ 214</b>

(1) Includes revenues from all other smaller operating segments of \$356 in 2000 (1999 - \$361; 1998 - \$243), and net income of \$193 in 2000 (1999 - \$205; 1998 - \$139). As well, includes corporate adjustments such as the elimination of the tax-exempt income gross-up reported in net interest income and provision for income taxes, increases in the general provision, differences in the actual amount of costs incurred and charged to the operating segments, and the impact of securitizations.

(2) Certain comparative amounts have been reclassified to conform with current year presentation of segments.

(3) Refer to Note 22 in respect of an increase in the general provision for credit losses, charged directly to retained earnings in 1999.

The following table summarizes the Bank's financial results by geographic region. Revenues and expenses which have not been allocated back to specific operating business lines are reflected in corporate adjustments.



## Geographical Segmentation<sup>(1)</sup>

For the year ended October 31, 2000  
(\$ millions)

	Canada	United States	Other International	Total
Net interest income	\$ 3,282	\$ 651	\$ 1,588	\$ 5,521
Provision for credit losses	(243)	(308)	(256)	(807)
Other income	2,407	469	588	3,464
Non-interest expenses	(3,455)	(287)	(1,229)	(4,971)
Provision for income taxes	(682)	(217)	(176)	(1,075)
Non-controlling interest in net income of subsidiaries	—	—	(43)	(43)
Income	\$ 1,309	\$ 308	\$ 472	\$ 2,089
Corporate adjustments				(163)
Net income				\$ 1,926
Total average assets (\$ billions)	\$ 143	\$ 39	\$ 54	\$ 236
Corporate adjustments				3
Total average assets, including corporate adjustments				\$ 239

For the year ended October 31, 1999<sup>(2)</sup>  
(\$ millions)

	Canada	United States	Other International	Total
Net interest income	\$ 3,041	\$ 582	\$ 1,345	\$ 4,968
Provision for credit losses	(182)	(229)	(109)	(520)
Other income	2,133	456	564	3,153
Non-interest expenses	(3,306)	(236)	(1,056)	(4,598)
Provision for income taxes	(597)	(230)	(235)	(1,062)
Non-controlling interest in net income of subsidiaries	—	—	(46)	(46)
Income	\$ 1,089	\$ 343	\$ 463	\$ 1,895
Corporate adjustments				(344) <sup>(3)</sup>
Net income				\$ 1,551 <sup>(3)</sup>
Total average assets (\$ billions)	\$ 133	\$ 37	\$ 54	\$ 224
Corporate adjustments				5
Total average assets, including corporate adjustments				\$ 229

For the year ended October 31, 1998<sup>(2)</sup>  
(\$ millions)

	Canada	United States	Other International	Total
Net interest income	\$ 2,978	\$ 403	\$ 1,149	\$ 4,530
Provision for credit losses	(304)	(55)	(143)	(502)
Other income	1,834	412	500	2,746
Non-interest expenses	(3,213)	(238)	(920)	(4,371)
Provision for income taxes	(455)	(211)	(188)	(854)
Non-controlling interest in net income of subsidiaries	—	—	(38)	(38)
Income	\$ 840	\$ 311	\$ 360	\$ 1,511
Corporate adjustments				(117)
Net income				\$ 1,394
Total average assets (\$ billions)	\$ 128	\$ 30	\$ 48	\$ 206
Corporate adjustments				8
Total average assets, including corporate adjustments				\$ 214

(1) Revenues are attributed to countries based on where services are performed or assets are recorded.

(2) Certain comparative amounts have been reclassified to conform with current year presentation.

(3) Refer to Note 22 in respect of an increase in the general provision for credit losses, charged directly to retained earnings in 1999.

## 18. Commitments and contingent liabilities

### a) Indirect credit commitments

In the normal course of business, various indirect credit commitments are outstanding which are not reflected in the consolidated financial statements. These may include:

- Guarantees and standby letters of credit which represent an irrevocable obligation to pay a third party when a customer does not meet its contractual financial or performance obligations.
- Documentary and commercial letters of credit which require the Bank to honour drafts presented by a third party when specific activities are completed.

- Commitments to extend credit which represent undertakings to make credit available in the form of loans or other financings for specific amounts and maturities, subject to specific conditions.
- Securities lending transactions under which the Bank, acting as principal or agent, agrees to lend securities to a borrower. The borrower must fully collateralize the security loan at all times.

These financial instruments are subject to normal credit standards, financial controls and monitoring procedures.

The table below provides a detailed breakdown of the Bank's off-balance sheet indirect credit commitments expressed in terms of the contractual amounts of the related commitment or contract.

<i>As at October 31 (\$ millions)</i>	<b>2000</b>	<b>1999</b>
Guarantees and standby letters of credit	<b>\$ 11,228</b>	<b>\$ 10,803</b>
Documentary and commercial letters of credit	<b>771</b>	<b>736</b>
Commitments to extend credit:		
Original term to maturity of one year or less	<b>84,554</b>	<b>71,902</b>
Original term to maturity of more than one year	<b>43,107</b>	<b>43,060</b>
Securities lending	<b>4,796</b>	<b>2,974</b>
Total off-balance sheet indirect credit commitments	<b>\$ 144,456</b>	<b>\$ 129,475</b>

#### b) Lease commitments

Minimum future rental commitments at October 31, 2000, for buildings and equipment under long-term, non-cancellable leases are shown below.

<i>For the year (\$ millions)</i>	
2001	<b>\$ 168</b>
2002	<b>146</b>
2003	<b>125</b>
2004	<b>106</b>
2005	<b>85</b>
2006 and thereafter	<b>665</b>
Total	<b>\$ 1,295</b>

Building rent expense, net of rental income from subleases, included in the Consolidated Statement of Income was \$179 million (1999 – \$187 million; 1998 – \$172 million).

#### c) Pledging of assets

In the ordinary course of business, securities and other assets are pledged against liabilities. Details of assets pledged are shown below:

<i>As at October 31 (\$ millions)</i>	<b>2000</b>	<b>1999</b>
Assets pledged to:		
Bank of Canada <sup>(1)</sup>	<b>\$ 73</b>	<b>\$ 73</b>
Foreign governments and central banks <sup>(1)</sup>	<b>2,669</b>	<b>1,439</b>
Clearing systems, payment systems and depositories <sup>(1)</sup>	<b>328</b>	<b>290</b>
Assets pledged in relation to exchange-traded derivative transactions	<b>40</b>	<b>89</b>
Assets pledged as collateral related to:		
Securities borrowed	<b>4,015</b>	<b>4,900</b>
Obligations related to assets sold under repurchase agreements	<b>23,792</b>	<b>16,781</b>
Call loans	<b>89</b>	<b>93</b>
Over-the-counter derivative transactions	<b>59</b>	<b>70</b>
Total	<b>\$ 31,065</b>	<b>\$ 23,735</b>

(1) Includes assets pledged in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

#### d) Litigation

In the ordinary course of business the Bank and its subsidiaries have legal proceedings brought against them. Management does not expect the outcome of these proceedings, in aggregate, to have a

material adverse effect on the Bank's consolidated financial position or results of operations.



## 19. Financial instruments

### a) Fair value

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Many of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on mar-

ket conditions at a specific point in time and may not be reflective of future fair values.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The majority of the Bank's financial instruments are carried at historical cost and are not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes. For those financial instruments held for trading purposes, the carrying value is adjusted regularly to reflect the fair value.

The following table sets out the fair values of on-balance sheet financial instruments and derivative instruments of the Bank using the valuation methods and assumptions described below. The fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

As at October 31 (\$ millions)	2000			1999		
	Total fair value	Total book value	Favourable/ (Unfavourable)	Total fair value	Total book value	Favourable/ (Unfavourable)
<b>Assets:</b>						
Cash resources	\$ 18,744	\$ 18,744	\$ -	\$ 17,115	\$ 17,115	\$ -
Securities	42,507	41,386	1,121 <sup>(1)</sup>	34,545	33,969	576 <sup>(1)</sup>
Loans	166,494	166,903	(409)	145,317	145,859	(542)
Customers' liability under acceptances	8,807	8,807	-	9,163	9,163	-
Other	3,780	3,780	-	3,832	3,832	-
<b>Liabilities:</b>						
Deposits	174,633	173,900	(733)	157,015	156,618	(397)
Acceptances	8,807	8,807	-	9,163	9,163	-
Obligations related to assets sold under repurchase agreements	23,792	23,792	-	16,781	16,781	-
Obligations related to securities sold short	4,297	4,297	-	2,833	2,833	-
Other	13,364	13,364	-	10,614	10,614	-
Subordinated debentures	5,293	5,370	77	5,261	5,374	113
<b>Derivatives (Note 20)</b>	<b>779</b>	<b>596 <sup>(2)</sup></b>	<b>183</b>	<b>(9)</b>	<b>(179) <sup>(2)</sup></b>	<b>170</b>

(1) This excludes deferred realized hedge losses on securities of \$252 (1999 - \$237).

(2) This amount represents a net asset in 2000 and a net liability in 1999.

The book value of financial assets and financial liabilities held for purposes other than trading may exceed its fair value due primarily to changes in interest rates. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair values as it is the Bank's intention to hold them to maturity.

### Determination of fair value

The following methods and assumptions were used to estimate the fair values of on-balance sheet financial instruments:

The fair values of cash resources, assets purchased under resale agreements, customers' liability under acceptances, other assets, obligations related to assets sold under repurchase agreements, obligations related to securities sold short, acceptances and other liabilities are assumed to approximate their carrying values, due to their short-term nature.

The fair value of securities is assumed to be equal to the estimated market value of securities provided in Note 3. These values are based on quoted market prices, when available. When a quoted price is not readily available, market values are estimated using quoted market prices of similar securities, or other valuation techniques.

The estimated fair value of loans reflects changes in the general level of interest rates that have occurred since the loans were originated. The particular valuation methods used are as follows:

- For loans to designated emerging markets, fair value is based on quoted market prices.
- For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market.
- For all other loans, fair value is determined by discounting the expected future cash flows of these loans at market rates for loans with similar terms and risks.

The fair values of deposits payable on demand or after notice or floating rate deposits payable on a fixed date are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits payable on a fixed date are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and risks.

The fair values of subordinated debentures and liabilities of subsidiaries, other than deposits (included in other liabilities), are determined by reference to current market prices for debt with similar terms and risks.

## b) Interest rate risk

The following table summarizes carrying amounts of balance sheet assets, liabilities and equity, and off-balance sheet financial instruments in order to arrive at the Bank's interest rate gap based on the earlier of contractual repricing or maturity dates. To arrive at the Bank's view of its effective interest rate gap, adjustments are made to factor in expected mortgage and loan repayments based on historical patterns, and to reclassify the Bank's trading instruments to the immediately rate sensitive category.

<i>As at October 31, 2000</i> <i>(\$ millions)</i>	Immediately rate sensitive <sup>(1)</sup>	Within 3 months	Three to 12 months	One to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	\$ 1,666	\$ 10,475	\$ 3,576	\$ 278	\$ –	\$ 2,749	\$ 18,744
Investment securities	419	2,341	3,882	3,799	5,533	3,591 <sup>(2)</sup>	19,565
Trading securities	514	1,749	900	4,446	4,031	10,181	21,821
Loans	27,276	68,727	22,672	45,082	3,207	(61) <sup>(3)</sup>	166,903
Other assets	–	–	–	–	–	26,138 <sup>(4)</sup>	26,138
<b>Total assets</b>	<b>29,875</b>	<b>83,292</b>	<b>31,030</b>	<b>53,605</b>	<b>12,771</b>	<b>42,598</b>	<b>253,171</b>
Deposits	12,576	94,650	35,137	19,774	48	11,715	173,900
Obligations related to assets sold under repurchase agreements	–	20,940	2,852	–	–	–	23,792
Obligations related to securities sold short	–	37	174	1,298	1,914	874	4,297
Subordinated debentures	–	–	407	2,508	2,455	–	5,370
Other liabilities	–	–	–	–	–	32,837 <sup>(4)</sup>	32,837
Shareholders' equity	–	–	–	–	–	12,975 <sup>(4)</sup>	12,975
<b>Total liabilities and   shareholders' equity</b>	<b>12,576</b>	<b>115,627</b>	<b>38,570</b>	<b>23,580</b>	<b>4,417</b>	<b>58,401</b>	<b>253,171</b>
On-balance sheet gap	17,299	(32,335)	(7,540)	30,025	8,354	(15,803)	–
Off-balance sheet gap	–	10,567	(2,909)	(10,052)	2,394	–	–
Interest rate sensitivity gap based on contractual repricing	17,299	(21,768)	(10,449)	19,973	10,748	(15,803)	–
Adjustment to expected repricing	12,226	(9,416)	6,408	(1,319)	(5,324)	(2,575)	–
<b>Total interest rate sensitivity gap</b>	<b>\$ 29,525</b>	<b>\$(31,184)</b>	<b>\$(4,041)</b>	<b>\$ 18,654</b>	<b>\$ 5,424</b>	<b>\$(18,378)</b>	<b>\$ –</b>
<b>Cumulative gap</b>	<b>29,525</b>	<b>(1,659)</b>	<b>(5,700)</b>	<b>12,954</b>	<b>18,378</b>	<b>–</b>	<b>–</b>
<i>As at October 31, 1999</i>							
<b>Total interest rate sensitivity gap</b>	<b>\$ 16,356</b>	<b>\$ (25,762)</b>	<b>\$ (2,364)</b>	<b>\$ 23,642</b>	<b>\$ 4,919</b>	<b>\$ (16,791)</b>	<b>\$ –</b>
<b>Cumulative gap</b>	<b>16,356</b>	<b>(9,406)</b>	<b>(11,770)</b>	<b>11,872</b>	<b>16,791</b>	<b>–</b>	<b>–</b>

(1) Represents those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis, for example, prime rate loans.

(2) This includes financial instruments such as common shares, non-term preferred shares, and shares in associated corporations.

(3) This includes impaired loans.

(4) This includes non-financial instruments.

The tables on the following page summarize average effective yields, by the earlier of the contractual repricing or maturity dates, for the following on-balance sheet rate-sensitive financial instruments (these rates are shown before and after adjusting for the impact of related derivatives used by the Bank for asset/liability risk management purposes).

Average effective yields by the earlier of the contractual repricing or maturity dates:

As at October 31, 2000	Unadjusted					Total	Adjusted total <sup>(1)</sup>
	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years		
Cash resources	6.0%	5.7%	5.4%	6.8%	–%	5.7%	5.7%
Investment securities <sup>(2)</sup>	7.4	8.4	7.1	7.0	6.0	6.9	6.8
Trading securities	6.6	6.1	6.9	6.7	6.7	6.6	6.6
Loans <sup>(3)</sup>	9.0	7.6	7.7	7.2	8.8	7.8	7.8
Deposits <sup>(4)</sup>	5.1	5.7	5.8	5.6	5.8	5.7	5.7
Obligations related to assets sold under repurchase agreements <sup>(4)</sup>	–	6.0	6.0	–	–	6.0	6.0
Obligations related to securities sold short	–	5.6	5.9	6.0	6.2	6.1	6.1
Subordinated debentures <sup>(4)</sup>	–	–	7.6	6.2	6.7	6.5	6.4

As at October 31, 1999	Unadjusted					Total	Adjusted total <sup>(1)</sup>
	Immediately rate sensitive	Within 3 months	Three to 12 months	One to 5 years	Over 5 years		
Cash resources	4.9%	5.0%	5.3%	5.0%	–%	5.1%	5.1%
Investment securities <sup>(2)</sup>	7.5	9.1	8.0	6.3	5.9	7.0	6.9
Trading securities	5.0	4.3	5.2	6.1	6.5	5.6	5.6
Loans <sup>(3)</sup>	8.1	6.5	7.3	7.0	7.1	7.0	7.0
Deposits <sup>(4)</sup>	4.0	4.8	5.3	5.5	5.5	4.9	5.2
Obligations related to assets sold under repurchase agreements <sup>(4)</sup>	–	4.8	4.9	–	–	4.8	4.8
Obligations related to securities sold short	–	4.7	5.1	6.1	6.4	6.1	6.1
Subordinated debentures <sup>(4)</sup>	–	–	6.5	6.5	6.7	6.6	6.0

(1) After adjusting for the impact of related derivatives.

(2) Yields are based on book values, net of the related country risk provision, and contractual interest or stated dividend rates adjusted for amortization of premiums and discounts. Yields on tax-exempt securities have not been computed on a taxable equivalent basis.

(3) Yields are based on book values, net of allowance for credit losses, and contractual interest rates, adjusted for the amortization of any deferred income.

(4) Yields are based on book values and contractual interest rates.

### c) Credit exposure

The following table summarizes the credit exposure of the Bank to businesses and governments by sector:

As at September 30 (\$ millions)	2000			1999	
	Loans and acceptances <sup>(1)</sup>	Guarantees and letters of credit	Derivative instruments <sup>(2)</sup>	Total	Total
Primary industry and manufacturing	\$ 28,235	\$ 3,946	\$ 831	\$ 33,012	\$ 29,785
Commercial and merchandising	28,820	2,955	76	31,851	30,431
Real estate	4,495	422	17	4,934	4,747
Transportation and communication	14,533	1,709	164	16,406	12,482
Banks and other financial services	7,177	2,136	7,626	16,939	15,799
Foreign governments and central banks	622	40	56	718	895
Canadian governments	323	41	1,287	1,651	1,504
Total	\$ 84,205	\$ 11,249	\$ 10,057	\$ 105,511	\$ 95,643
General provision <sup>(2)(3)</sup>				1,210	1,131
				<b>\$ 104,301</b>	<b>\$ 94,512</b>

(1) Excludes assets purchased under resale agreements.

(2) Derivative instruments and general provision are as at October 31.

(3) The remaining \$90 (1999 – \$169) of the \$1,300 (1999 – \$1,300) general provision is allocated against loans other than business and government loans.



## d) Anticipatory hedges

In its normal course of business, the Bank may decide to hedge anticipatory transactions such as future foreign revenues and

expenses and planned deposit campaigns. As at October 31, 2000, and 1999, there were no material anticipatory hedges outstanding.

## 20. Derivative instruments

### a) Notional amounts

The following table provides the aggregate notional amounts of off-balance sheet derivative instruments outstanding by type and segregated between those used by the Bank in its dealer capacity (Trading) and those used in the Bank's asset/liability risk management process (ALM). The notional amounts of these contracts represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged.

As at October 31 (\$ millions)	2000			1999		
	Trading	ALM	Total	Trading	ALM	Total
<b>Interest rate contracts</b>						
Exchange-traded:						
Futures	\$ 65,557	\$ 24,440	\$ 89,997	\$ 61,699	\$ 18,901	\$ 80,600
Options purchased	8,491	–	8,491	9,061	–	9,061
Options written	670	–	670	1,883	–	1,883
	74,718	24,440	99,158	72,643	18,901	91,544
Over-the-counter:						
Forward rate agreements	61,900	69,435	131,335	71,348	63,619	134,967
Swaps	365,407	86,348	451,755	414,957	69,470	484,427
Options purchased	59,984	7,596	67,580	21,722	5,904	27,626
Options written	67,989	285	68,274	32,899	388	33,287
	555,280	163,664	718,944	540,926	139,381	680,307
Total	\$ 629,998	\$ 188,104	\$ 818,102	\$ 613,569	\$ 158,282	\$ 771,851
<b>Foreign exchange contracts<sup>(1)</sup></b>						
Exchange-traded:						
Futures	\$ 1,216	\$ –	\$ 1,216	\$ 2,216	\$ –	\$ 2,216
Options purchased	149	–	149	278	–	278
Options written	325	–	325	11	–	11
	1,690	–	1,690	2,505	–	2,505
Over-the-counter:						
Spot and forwards	155,563	3,397	158,960	167,624	7,637	175,261
Swaps	32,586	9,450	42,036	33,591	7,328	40,919
Options purchased	5,706	–	5,706	6,640	110	6,750
Options written	5,464	–	5,464	3,215	110	3,325
	199,319	12,847	212,166	211,070	15,185	226,255
Total	\$ 201,009	\$ 12,847	\$ 213,856	\$ 213,575	\$ 15,185	\$ 228,760
<b>Other derivative contracts<sup>(2)</sup></b>						
Exchange-traded	\$ 6,103	\$ –	\$ 6,103	\$ 6,366	\$ –	\$ 6,366
Over-the-counter	16,746	2,990	19,736	8,185	2,960	11,145
Total	\$ 22,849	\$ 2,990	\$ 25,839	\$ 14,551	\$ 2,960	\$ 17,511
Total notional amounts outstanding	\$ 853,856	\$ 203,941	\$ 1,057,797	\$ 841,695	\$ 176,427	\$ 1,018,122

(1) Includes gold-related derivatives.

(2) Includes equity, precious metals other than gold, base metals and credit derivatives.

## b) Remaining term to maturity

The following table summarizes the remaining term to maturity of the notional amounts of the Bank's derivative instruments by type:

<i>As at October 31, 2000 (\$ millions)</i>	Within 1 year	One to 5 years	Over 5 years	Total
<b>Interest rate contracts</b>				
Futures	\$ 58,498	\$ 31,499	\$ –	\$ 89,997
Forward rate agreements	127,590	3,745	–	131,335
Swaps	199,665	201,249	50,841	451,755
Options purchased	53,914	19,036	3,121	76,071
Options written	39,909	25,897	3,138	68,944
	479,576	281,426	57,100	818,102
<b>Foreign exchange contracts<sup>(1)</sup></b>				
Futures	541	675	–	1,216
Spot and forwards	146,172	11,985	803	158,960
Swaps	11,420	23,837	6,779	42,036
Options purchased	4,066	1,789	–	5,855
Options written	4,358	1,431	–	5,789
	166,557	39,717	7,582	213,856
<b>Other derivative contracts<sup>(2)</sup></b>	20,610	4,645	584	25,839
<b>Total</b>	<b>\$ 666,743</b>	<b>\$ 325,788</b>	<b>\$ 65,266</b>	<b>\$ 1,057,797</b>

<i>As at October 31, 1999 (\$ millions)</i>	Within 1 year	One to 5 years	Over 5 years	Total
<b>Interest rate contracts</b>				
Futures	\$ 52,390	\$ 28,210	\$ –	\$ 80,600
Forward rate agreements	130,105	4,862	–	134,967
Swaps	235,764	202,150	46,513	484,427
Options purchased	20,821	12,578	3,288	36,687
Options written	10,553	24,608	9	35,170
	449,633	272,408	49,810	771,851
<b>Foreign exchange contracts<sup>(1)</sup></b>				
Futures	2,216	–	–	2,216
Spot and forwards	162,023	12,138	1,100	175,261
Swaps	8,008	25,999	6,912	40,919
Options purchased	5,455	1,561	12	7,028
Options written	2,162	1,174	–	3,336
	179,864	40,872	8,024	228,760
<b>Other derivative contracts<sup>(2)</sup></b>	13,641	3,672	198	17,511
<b>Total</b>	<b>\$ 643,138</b>	<b>\$ 316,952</b>	<b>\$ 58,032</b>	<b>\$ 1,018,122</b>

(1) Includes gold-related derivatives.

(2) Includes equity, precious metals other than gold, base metals and credit derivatives.

### c) Credit risk

As with on-balance sheet assets, derivative instruments are subject to credit risk. Credit risk arises from the possibility that counterparties may default on their obligations to the Bank. However, whereas the credit risk of on-balance sheet assets is represented by the principal amount net of any applicable allowance for credit losses, the credit risk associated with derivatives is normally a small fraction of the notional amount of the derivative instrument. Derivative contracts expose the Bank to credit loss only if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. Accordingly, credit risk of derivatives is represented by the positive fair value of the instrument.

Negotiated over-the-counter derivatives often present greater credit exposure than exchange-traded contracts. The net change in

the exchange-traded contracts is normally settled daily in cash with the exchange. Holders of these contracts look to the exchange for performance under the contract.

The Bank strives to limit credit risk by dealing with counterparties that it believes are creditworthy, and manages its credit risk for derivatives through the same credit risk process applied to on-balance sheet assets.

The Bank pursues opportunities to reduce its exposure to credit losses on derivative instruments. These opportunities include entering into master netting arrangements with counterparties. The credit risk associated with favourable contracts is eliminated by a master netting arrangement to the extent that unfavourable contracts with the same counterparty are not settled before favourable contracts.

The following table summarizes the credit exposure of the Bank's derivatives. The credit risk amount (CRA) represents the estimated replacement cost, or positive fair value, for all contracts without taking into account any master netting or collateral arrangements that have been made. The CRA does not reflect actual or expected losses.

The credit equivalent amount (CEA) is the CRA plus an add-on for potential future exposure. The add-on amount is based on a formula prescribed in the Capital Adequacy Guideline of the Superintendent. The risk-weighted balance is the CEA multiplied by counterparty risk factors prescribed by this Guideline.

					2000	1999	
	Notional amount	Credit risk amount (CRA) (a)	Potential future exposure (b)	Credit equivalent amount (CEA) (a) + (b)	Risk- weighted balance	Credit risk amount (CRA)	Risk- weighted balance
As at October 31 (\$ millions)							
<b>Interest rate contracts</b>							
Futures	\$ 89,997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Forward rate agreements	131,335	46	19	65	13	81	21
Swaps	451,755	4,637	1,769	6,406	1,369	4,945	1,277
Options purchased	76,071	251	142	393	91	228	75
Options written	68,944	-	-	-	-	-	-
	818,102	4,934	1,930	6,864	1,473	5,254	1,373
<b>Foreign exchange contracts<sup>(1)</sup></b>							
Futures	1,216	-	-	-	-	-	-
Spot and forwards	158,960	2,502	1,935	4,437	1,356	2,189	1,201
Swaps	42,036	1,173	1,778	2,951	564	1,033	528
Options purchased	5,855	156	130	286	101	223	77
Options written	5,789	-	-	-	-	-	-
	213,856	3,831	3,843	7,674	2,021	3,445	1,806
<b>Other derivative contracts<sup>(2)</sup></b>							
	25,839	1,292	1,467	2,759	839	688	586
Total derivatives	\$ 1,057,797	\$ 10,057	\$ 7,240	\$ 17,297	\$ 4,333	\$ 9,387	\$ 3,765
Less: impact of master netting agreements							
		3,862	1,699	5,561	1,214	3,668	1,215
Total		\$ 6,195	\$ 5,541	\$ 11,736	\$ 3,119	\$ 5,719	\$ 2,550

(1) Includes gold-related derivatives.

(2) Includes equity, precious metals other than gold, base metals and credit derivatives.



## d) Fair value

Fair values of exchange-traded derivatives are based on quoted market prices. Fair values of over-the-counter (OTC) derivatives are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

Interest rate swaps and options are subject to a further valuation adjustment, determined on a portfolio basis, to cover future risks and related costs.

The following table summarizes the fair value of derivatives segregated by type and segregated between trading and those derivatives used in the Bank's asset/liability risk management process (ALM).

As at October 31 (\$ millions)	2000		2000		1999	
	Average fair value <sup>(1)</sup>		Year-end fair value		Year-end fair value	
	Favourable	Unfavourable	Favourable	Unfavourable	Favourable	Unfavourable
<b>Trading</b>						
<b>Interest rate contracts</b>						
Forward rate agreements	\$ 33	\$ 32	\$ 24	\$ 28	\$ 47	\$ 54
Swaps	4,046	3,728	3,551	3,151	4,246	3,908
Options	210	259	246	288	227	283
	4,289	4,019	3,821	3,467	4,520	4,245
<b>Foreign exchange contracts<sup>(2)</sup></b>						
Forwards	2,017	1,796	2,472	2,095	2,109	1,887
Swaps	751	1,523	945	1,884	835	1,767
Options	167	190	156	160	223	226
	2,935	3,509	3,573	4,139	3,167	3,880
<b>Other derivative contracts<sup>(3)</sup></b>	539	607	850	1,109	352	526
<b>Total fair value – trading</b>	\$ 7,763	\$ 8,135	\$ 8,244	\$ 8,715	\$ 8,039	\$ 8,651
<b>ALM<sup>(4)</sup></b>						
<b>Interest rate contracts</b>						
Forward rate agreements			\$ 22	\$ 36	\$ 34	\$ 18
Swaps			1,086	344	699	469
Options			5	2	1	8
			1,113	382	734	495
<b>Foreign exchange contracts<sup>(2)</sup></b>						
Forwards			30	19	80	103
Swaps			228	129	198	132
Options			–	–	–	2
			258	148	278	237
<b>Other derivative contracts<sup>(3)</sup></b>			442	33	336	13
<b>Total fair value – ALM</b>			\$ 1,813	\$ 563	\$ 1,348	\$ 745
<b>Total gross fair values before netting</b>			\$ 10,057	\$ 9,278	\$ 9,387	\$ 9,396
<b>Less: impact of master netting agreements</b>			3,862	3,862	3,668	3,668
<b>Total</b>			\$ 6,195	\$ 5,416	\$ 5,719	\$ 5,728

(1) The average fair value of trading derivative financial instruments for the year ended October 31, 1999 was: favourable \$10,431 and unfavourable \$10,929. Average fair value amounts are based on month-end balances.

(2) Includes gold-related derivatives.

(3) Includes equity, precious metals other than gold, base metals and credit derivatives.

(4) The fair values of these derivative financial instruments wholly or partially offset the changes in fair values of related on-balance sheet financial instruments.

## 21. Acquisition of subsidiaries

### a) Banco Sud Americano, Chile

During 2000, the Bank increased its voting ownership in Banco Sud Americano in Chile from 28% to 88%. This occurred in two stages, with the Bank purchasing 33% on December 15, 1999, for cash of US\$112 million, and a further 27% for cash of US\$79 million on October 6, 2000. These acquisitions were accounted for using the purchase method. The Bank recorded goodwill of \$160 million. The results of Banco Sud Americano's operations since December 16,

1999, have been consolidated with the Bank's income, less the appropriate non-controlling interest in the net income. The total assets of Banco Sud Americano as at December 15, 1999, were \$3.5 billion.

Subsequent to year end, the Bank purchased a further 10% for cash of US\$28 million on November 17, 2000, bringing the Bank's total voting ownership to 98%.

### b) National Trustco Inc.

Subsequent to the acquisition of National Trustco Inc. in 1997, the Bank determined it was necessary to restructure the combined operations. In 1997, a restructuring provision for \$250 million was established to cover branch and office closures and mergers, staff severance and other related items. As of the end of fiscal 2000, \$155

million of this restructuring provision had been spent. After reviewing the remaining costs required to complete the integration, \$34 million was reversed in 2000 (1999 – \$20 million), representing amounts no longer required. As of the end of fiscal 2000, the restructuring is substantially complete.

### c) Subsequent event – Grupo Financiero Inverlat, Mexico

On November 30, 2000, the Bank increased its voting ownership in Grupo Financiero Inverlat in Mexico from 10% to 55%. The total purchase price for the additional 45% was US\$184 million, comprised of the conversion of debentures of US\$144 million purchased in 1996, and a US\$40 million cash payment by the Bank. Grupo Financiero Inverlat is comprised of three main operating companies: a full-service bank, a brokerage house and a foreign exchange opera-

tion. The results of Grupo Financiero Inverlat will be included in the Bank's income commencing in 2001. This acquisition will be accounted for using the purchase method. The allocation of the purchase price to the fair value of the identifiable assets and liabilities has not yet been completed. The amount of goodwill arising from the transaction is not expected to be material.

## 22. General provision

### a) Change in estimate

A general provision is established by the Bank to recognize losses which have occurred as at the balance sheet date, but have not yet been specifically identified on an individual item-by-item basis. Experience has indicated that there is a period of time between when a loss event occurs, that is an event affecting a borrower's ability to repay interest and/or principal, and when the Bank is able to identify such an event.

In 1999, the Bank revised its methodology for establishing the general provision. The previous methodology assumed that losses incurred on any individual credit would ordinarily become apparent within a one-year time frame, and accordingly specific provisions for credit losses would be recorded in that time frame. The revised methodology incorporates the Bank's experience that losses incurred by the Bank become apparent only over a longer period of

time, and that the average term to maturity is a better indicator of this longer period. The revision to the methodology resulted in a one-time increase in the general provision of \$550 million in 1999, raising the general provision to \$1,300 million. The Superintendent specified that the one-time adjustment to the general provision, net of applicable income taxes, be treated as a charge to retained earnings in 1999.

In 1999, the Bank increased the general provision by \$700 million (1998 – \$100 million), of which \$150 million (1998 – \$100 million) was charged to the provision for credit losses in the Consolidated Statement of Income in the first quarter. The remaining \$550 million for 1999, as referred to above, was charged directly to retained earnings, net of applicable income taxes of \$236 million. This treatment is not in accordance with GAAP.

b) **Impact on consolidated financial statements presented in accordance with Canadian generally accepted accounting principles (GAAP)**

As described in Note 22 a), the Superintendent specified that the increase in the general provision for credit losses of \$550 million in 1999 arising from the above noted change in estimate be charged directly to retained earnings, net of applicable income taxes of \$236 million. If the increase had been recorded in accordance with GAAP,

the increase would have been charged to provision for credit losses in the Consolidated Statement of Income. The consolidated financial statements would not have been affected other than as set out below:

**Consolidated Statement of Income**

The following is a summary of the impact on certain categories in the Consolidated Statement of Income, for the year ended October 31, 1999, if the increase in the general provision had been recorded in accordance with GAAP:

<i>For the year ended October 31, 1999 (\$ millions except per share amounts)</i>	<b>As reported</b>	<b>In accordance with GAAP</b>
Provision for credit losses	\$ 635	\$ 1,185
Net interest income after provision for credit losses	4,037	3,487
Net interest and other income	7,220	6,670
Income before income taxes and non-controlling interest in subsidiaries	2,464	1,914
Provision for income taxes	867	631
Net income	1,551	1,237
Net income available to common shareholders	1,443	1,129
Net income per common share (basic)	\$ 2.93	\$ 2.29



## PRINCIPAL SUBSIDIARIES<sup>(1)</sup>

Name	Principal office address	Carrying value of shares (\$ millions)
<b>CANADIAN</b>		
BNS Capital Trust	Toronto, Ontario	\$ 128
BNS Investments Inc.	Toronto, Ontario	\$ 3,317
The Bank of Nova Scotia Properties Inc.	Toronto, Ontario	
e-Scotia.com Inc.	Toronto, Ontario	
Montreal Trust Company	Montreal, Quebec	
Montreal Trust Company of Canada	Montreal, Quebec	
MontroServices Corporation	Montreal, Quebec	
Scotia Merchant Capital Corporation	Toronto, Ontario	
e-Scotia Acquisition Inc.	Toronto, Ontario	\$ 9
The Mortgage Insurance Company of Canada	Toronto, Ontario	\$ 352
National Trustco Inc.	Toronto, Ontario	\$ 873
The Bank of Nova Scotia Trust Company	Toronto, Ontario	
National Trust Company	Toronto, Ontario	
Victoria and Grey Mortgage Corporation	Toronto, Ontario	
RoyNat Inc.	Toronto, Ontario	\$ 26
Scotia Cassels Investment Counsel Limited	Toronto, Ontario	\$ 42
Scotia General Insurance Company	Toronto, Ontario	\$ 179
Scotia Life Insurance Company	Toronto, Ontario	\$ 33
Scotia Mortgage Corporation	Toronto, Ontario	\$ 276
Scotia Mortgage Investment Corporation	St. John's, Newfoundland	\$ 62
Scotia Securities Inc.	Toronto, Ontario	\$ 270
Scotia Discount Brokerage Inc.	Toronto, Ontario	
ScotiaMcLeod Corporation	Toronto, Ontario	\$ 88
Scotia Capital Inc.	Toronto, Ontario	

- (1) The Bank owns 100% of the outstanding voting shares of each subsidiary unless otherwise noted. The listing includes major operating subsidiaries only.
- (2) Subsequent to year-end, the Bank increased its ownership in Ahorromet Scotiabank, S.A. to 98%, and increased its ownership in Banco Sud Americano, S.A. to 98%.
- (3) The carrying value of this subsidiary is included with that of its parent, Scotia Capital Inc.
- (4) The carrying value of this subsidiary is included with that of its parent, BNS Investments Inc.
- (5) Associated corporation effectively controlled by the Bank.

Name	Principal office address	Carrying value of shares (\$ millions)
<b>INTERNATIONAL</b>		
Ahorromet Scotiabank, S.A. (81%) <sup>(2)</sup>	San Salvador, El Salvador	\$ 40
The Bank of Nova Scotia Berhad	Kuala Lumpur, Malaysia	\$ 104
The Bank of Nova Scotia International Limited	Nassau, Bahamas	\$ 5,395
BNS International (Barbados) Limited	Warrens, Barbados	
BNS Pacific Limited	Port Louis, Mauritius	
The Bank of Nova Scotia Asia Limited	Singapore	
The Bank of Nova Scotia Channel Islands Limited	Jersey, Channel Islands	
The Bank of Nova Scotia Trust Company (Bahamas) Limited	Nassau, Bahamas	
The Bank of Nova Scotia Trust Company (Cayman) Limited	Grand Cayman, Cayman Islands	
Scotia Insurance (Barbados) Limited	Warrens, Barbados	
Scotia Subsidiaries Limited	Nassau, Bahamas	
Scotiabank (Bahamas) Ltd.	Nassau, Bahamas	
Scotiabank (British Virgin Islands) Limited	Road Town, Tortola, B.V.I.	\$ 205
Scotiabank (Cayman Islands) Limited	Grand Cayman, Cayman Islands	
Scotiabank (Ireland) Limited	Dublin, Ireland	
The Bank of Nova Scotia Jamaica Limited (70%)	Kingston, Jamaica	
Nova Scotia Inversiones Limitada	Santiago, Chile	\$ 328
Banco Sud Americano, S.A. (88%) <sup>(2)</sup>	Santiago, Chile	
Scotia Capital (USA) Inc. <sup>(3)</sup>	New York, New York	(3)
Scotia Holdings (US) Inc. <sup>(4)</sup>	Atlanta, Georgia	(4)
The Bank of Nova Scotia Trust Company of New York	New York, New York	
Scotiabanc Inc.	Atlanta, Georgia	
Scotia International Limited	Nassau, Bahamas	\$ 651
Corporacion Mercaban de Costa Rica, S.A. (80%)	San Jose, Costa Rica	
Scotia Mercantile Bank (80%)	Grand Cayman, Cayman Islands	
Scotiabank Anguilla Limited	The Valley, Anguilla	
Scotiabank Quilmes, S.A.	Buenos Aires, Argentina	
Scotiabank de Puerto Rico	Hato Rey, Puerto Rico	\$ 224
Scotiabank Europe plc	London, England	\$ 1,607
Scotiabank Trinidad and Tobago Limited (47%) <sup>(5)</sup>	Port of Spain, Trinidad	\$ 67
Scotiabank Mocatta Limited	London, England	\$ 16

# ELEVEN-YEAR STATISTICAL REVIEW

<i>As at October 31 (\$ millions)</i>	<b>2000</b>	1999	1998	1997
<b>Assets</b>				
<b>Cash resources</b>	<b>\$ 18,744</b>	<b>\$ 17,115</b>	<b>\$ 22,900</b>	<b>\$ 18,174</b>
<b>Securities</b>				
Investment	<b>19,565</b>	20,030	17,392	17,091
Trading	<b>21,821</b>	13,939	12,108	10,908
	<b>41,386</b>	33,969	29,500	27,999
<b>Loans</b>				
Residential mortgages	<b>49,994</b>	47,861	45,818	41,647
Personal and credit cards	<b>17,704</b>	16,396	18,574	17,668
Business and governments	<b>75,646</b>	67,681	74,901	57,904
Assets purchased under resale agreements	<b>23,559</b>	13,921	11,189	8,520
	<b>166,903</b>	145,859	150,482	125,739
<b>Other</b>				
Customers' liability under acceptances	<b>8,807</b>	9,163	8,888	7,575
Land, buildings and equipment	<b>1,631</b>	1,681	1,759	1,716
Other assets	<b>15,700</b>	14,904	20,059	13,950
	<b>26,138</b>	25,748	30,706	23,241
	<b>\$ 253,171</b>	<b>\$ 222,691</b>	<b>\$ 233,588</b>	<b>\$ 195,153</b>
<b>Liabilities and shareholders' equity</b>				
<b>Deposits</b>				
Personal	<b>\$ 68,972</b>	<b>\$ 65,715</b>	<b>\$ 62,656</b>	<b>\$ 59,239</b>
Business and governments	<b>76,980</b>	64,070	70,779	56,928
Banks	<b>27,948</b>	26,833	32,925	22,808
	<b>173,900</b>	156,618	166,360	138,975
<b>Other</b>				
Acceptances	<b>8,807</b>	9,163	8,888	7,575
Obligations related to assets sold under repurchase agreements	<b>23,792</b>	16,781	14,603	11,559
Obligations related to securities sold short	<b>4,297</b>	2,833	3,121	3,739
Other liabilities	<b>23,301</b>	20,318	24,147	18,603
Non-controlling interest in subsidiaries	<b>729</b>	198	173	137
	<b>60,926</b>	49,293	50,932	41,613
<b>Subordinated debentures</b>	<b>5,370</b>	5,374	5,482	5,167
<b>Shareholders' equity</b>				
Capital stock				
Preferred shares	<b>1,775</b>	1,775	1,775	1,468
Common shares	<b>2,765</b>	2,678	2,625	2,567
Retained earnings	<b>8,435</b>	6,953	6,414	5,363
	<b>12,975</b>	11,406	10,814	9,398
	<b>\$ 253,171</b>	<b>\$ 222,691</b>	<b>\$ 233,588</b>	<b>\$ 195,153</b>

(1) Certain comparative amounts have been reclassified to conform with current year presentation.

(2) Pre-1996 comparative amounts have not been restated to reflect the reporting of unrealized gains and unrealized losses on trading derivative instruments on a gross basis in other assets and other liabilities respectively, as they were not reasonably determinable.



# CONSOLIDATED BALANCE SHEET<sup>(1)</sup>

1996	1995 <sup>(2)</sup>	1994	1993	1992	1991	1990
\$ 14,737	\$ 16,728	\$ 11,388	\$ 8,634	\$ 8,337	\$ 7,022	\$ 7,844
15,835	13,820	17,093	10,894	9,417	6,429	4,985
10,070	8,154	8,473	6,944	4,811	4,112	3,200
25,905	21,974	25,566	17,838	14,228	10,541	8,185
30,653	28,581	26,767	18,600	16,703	14,596	12,787
16,718	15,274	13,372	11,599	11,113	11,601	11,864
48,953	45,554	42,336	37,399	38,530	34,628	33,842
9,112	8,378	4,304	4,606	1,706	1,306	1,329
105,436	97,787	86,779	72,204	68,052	62,131	59,822
5,945	5,563	4,796	3,921	3,726	5,380	7,695
1,523	1,485	1,200	1,099	1,110	1,043	999
11,755	3,652	3,199	2,814	1,924	2,038	2,263
19,223	10,700	9,195	7,834	6,760	8,461	10,957
\$ 165,301	\$ 147,189	\$ 132,928	\$ 106,510	\$ 97,377	\$ 88,155	\$ 86,808
\$ 47,768	\$ 45,538	\$ 42,431	\$ 31,288	\$ 29,058	\$ 27,539	\$ 25,530
44,981	41,747	35,660	30,009	30,902	25,000	25,501
25,145	24,060	21,664	16,451	16,667	15,294	14,248
117,894	111,345	99,755	77,748	76,627	67,833	65,279
5,945	5,563	4,796	3,921	3,726	5,380	7,695
7,894	7,354	5,798	4,926	2,574	1,986	1,802
6,509	5,416	5,989	4,191	2,779	1,953	1,871
15,958	6,809	7,158	6,608	4,413	4,471	4,435
101	133	175	56	51	17	19
36,407	25,275	23,916	19,702	13,543	13,807	15,822
3,251	3,249	3,016	3,156	2,128	1,979	1,832
1,325	1,575	1,100	1,300	1,000	1,000	750
2,161	1,994	1,839	1,429	1,308	1,201	1,106
4,263	3,751	3,302	3,175	2,771	2,335	2,019
7,749	7,320	6,241	5,904	5,079	4,536	3,875
\$ 165,301	\$ 147,189	\$ 132,928	\$ 106,510	\$ 97,377	\$ 88,155	\$ 86,808

# ELEVEN-YEAR STATISTICAL REVIEW

For the year ended October 31 (\$ millions except per share amounts)	2000	1999	1998	1997
<b>Interest income</b>				
Loans	\$ 12,129	\$ 10,654	\$ 10,269	\$ 8,082
Securities	2,286	1,874	1,815	1,636
Deposits with banks	916	943	1,007	770
	<b>15,331</b>	<b>13,471</b>	<b>13,091</b>	<b>10,488</b>
<b>Interest expense</b>				
Deposits	8,192	7,284	7,303	5,714
Subordinated debentures	324	314	354	260
Other	1,616	1,201	1,057	797
	<b>10,132</b>	<b>8,799</b>	<b>8,714</b>	<b>6,771</b>
Net interest income	<b>5,199</b>	<b>4,672</b>	<b>4,377</b>	<b>3,717</b>
Provision for credit losses	765	635 <sup>(2)</sup>	595	35
Net interest income after provision for credit losses	<b>4,434</b>	<b>4,037<sup>(2)</sup></b>	<b>3,782</b>	<b>3,682</b>
Other income	<b>3,665</b>	<b>3,183</b>	<b>2,858</b>	<b>2,683</b>
Net interest and other income	<b>8,099</b>	<b>7,220<sup>(2)</sup></b>	<b>6,640</b>	<b>6,365</b>
<b>Non-interest expenses</b>				
Salaries	2,594	2,297	2,193	1,973
Pension contributions and other staff benefits	350	330	308	229
Premises and equipment, including depreciation	995	1,007	958	778
Other	1,214	1,142	987	803
Restructuring provisions following acquisitions	(34)	(20)	—	250
Write off of goodwill	—	—	—	26
	<b>5,119</b>	<b>4,756</b>	<b>4,446</b>	<b>4,059</b>
Income before the undernoted:	<b>2,980</b>	<b>2,464<sup>(2)</sup></b>	<b>2,194</b>	<b>2,306</b>
Provision for income taxes	990	867 <sup>(2)</sup>	762	758
Non-controlling interest in net income of subsidiaries	64	46	38	34
<b>Net income</b>	<b>\$ 1,926</b>	<b>\$ 1,551<sup>(2)</sup></b>	<b>\$ 1,394</b>	<b>\$ 1,514</b>
Preferred dividends paid	<b>\$ 108</b>	<b>\$ 108</b>	<b>\$ 97</b>	<b>\$ 99</b>
Net income available to common shareholders	<b>\$ 1,818</b>	<b>\$ 1,443<sup>(2)</sup></b>	<b>\$ 1,297</b>	<b>\$ 1,415</b>
Average number of common shares outstanding (000's) <sup>(3)</sup>	<b>495,472</b>	<b>493,136</b>	<b>490,914</b>	<b>478,972</b>
Net income per common share <sup>(3)(4)</sup> :				
Basic	<b>\$ 3.67</b>	<b>\$ 2.93<sup>(2)</sup></b>	<b>\$ 2.64</b>	<b>\$ 2.95</b>
Fully diluted	<b>\$ 3.62</b>	<b>\$ 2.91<sup>(2)</sup></b>	<b>\$ 2.63</b>	<b>\$ 2.92</b>
Dividends per common share <sup>(3)</sup>	<b>\$ 1.00</b>	<b>\$ 0.87</b>	<b>\$ 0.80</b>	<b>\$ 0.74</b>

- (1) Pre-1992 comparative amounts have not been restated to reflect the reclassification of gains and losses on securities from interest income to other income, as they were not reasonably determinable.
- (2) Refer to Note 22 in respect of an increase in the general provision for credit losses, charged directly to retained earnings in 1999.
- (3) Amounts have been retroactively adjusted to reflect the two-for-one stock split on February 12, 1998.
- (4) Net income per common share has been calculated on the daily average of equivalent fully paid common shares outstanding.

# CONSOLIDATED STATEMENT OF INCOME

1996	1995	1994	1993	1992	1991 <sup>(1)</sup>	1990
\$ 7,881	\$ 8,007	\$ 6,090	\$ 5,382	\$ 5,729	\$ 6,650	\$ 6,836
1,757	1,991	1,287	1,243	1,201	1,299	1,072
740	597	391	313	357	484	616
10,378	10,595	7,768	6,938	7,287	8,433	8,524
5,969	6,166	4,149	3,706	4,191	5,287	5,936
214	209	172	133	134	166	180
841	1,046	487	434	374	462	436
7,024	7,421	4,808	4,273	4,699	5,915	6,552
3,354	3,174	2,960	2,665	2,588	2,518	1,972
380	560	567	465	449	374	238
2,974	2,614	2,393	2,200	2,139	2,144	1,734
2,008	1,498	1,606	1,380	1,197	883	831
4,982	4,112	3,999	3,580	3,336	3,027	2,565
1,702	1,438	1,401	1,255	1,153	1,075	966
208	214	182	144	117	101	76
664	588	533	481	461	421	364
663	604	578	483	443	399	369
(20)	—	175	—	—	—	—
—	—	162	—	—	—	—
3,217	2,844	3,031	2,363	2,174	1,996	1,775
1,765	1,268	968	1,217	1,162	1,031	790
665	371	455	490	475	391	271
31	21	31	13	11	7	7
\$ 1,069	\$ 876	\$ 482	\$ 714	\$ 676	\$ 633	\$ 512
\$ 113	\$ 104	\$ 97	\$ 92	\$ 79	\$ 79	\$ 69
\$ 956	\$ 772	\$ 385	\$ 622	\$ 597	\$ 554	\$ 443
468,716	457,197	437,427	416,563	406,166	394,899	380,396
\$ 2.04	\$ 1.69	\$ 0.88	\$ 1.49	\$ 1.47	\$ 1.40	\$ 1.16
\$ 2.03	\$ 1.69	\$ 0.88	\$ 1.49	\$ 1.47	\$ 1.40	\$ 1.16
\$ 0.65	\$ 0.62	\$ 0.58	\$ 0.56	\$ 0.52	\$ 0.50	\$ 0.50



## ELEVEN-YEAR STATISTICAL REVIEW

For the year ended October 31 (\$ millions)	2000	1999	1998	1997
<b>Preferred shares</b>				
Bank:				
Balance at beginning of year	\$ 1,525	\$ 1,525	\$ 1,218	\$ 1,325
Issued	—	—	311	143
Redeemed	—	—	(4)	(250)
Balance at end of year	1,525	1,525	1,525	1,218
Scotia Mortgage Investment Corporation	250	250	250	250
Total preferred shares	\$ 1,775	\$ 1,775	\$ 1,775	\$ 1,468
<b>Common shares</b>				
Balance at beginning of year	\$ 2,678	\$ 2,625	\$ 2,567	\$ 2,161
Issued to acquire subsidiaries	—	—	—	335
Issued under Shareholder Dividend and Share Purchase Plan, Stock Option Plan, and other	87	53	58	71
Balance at end of year	\$ 2,765	\$ 2,678	\$ 2,625	\$ 2,567
<b>Retained earnings</b>				
Balance at beginning of year	\$ 6,953	\$ 6,414	\$ 5,363	\$ 4,263
Implementation of impaired loans accounting policy <sup>(1)</sup>	—	—	—	—
Net income	1,926	1,551 <sup>(2)</sup>	1,394	1,514
Dividends: Preferred	(108)	(108)	(97)	(99)
Common	(496)	(429)	(393)	(355)
Net unrealized foreign exchange gains (losses)	163	(160)	152	43
Net cost of shares issued and redeemed, and other	(3)	(1)	(5)	(3)
Net increase in general provision for credit losses	—	(314) <sup>(2)</sup>	—	—
Balance at end of year	\$ 8,435	\$ 6,953	\$ 6,414	\$ 5,363

## ELEVEN-YEAR STATISTICAL REVIEW

### Operating measures (%)

Return on equity	17.6	15.3 <sup>(2)</sup>	15.3	20.2
Productivity ratio	56.5	59.3	60.4	62.4
Return on assets	.81	.68 <sup>(2)</sup>	.65	.85

### Common share information<sup>(4)</sup>

Earnings per share – basic (\$)	3.67	2.93 <sup>(2)</sup>	2.64	2.95
Earnings per share – fully diluted (\$)	3.62	2.91 <sup>(2)</sup>	2.63	2.92
Dividends per share (\$)	1.00	0.87	0.80	0.74
Book value per common share (\$)	22.49	19.49	18.37	16.19
Number of shares outstanding (000's)	497,965	494,252	492,089	489,812
Share price (\$):				
High	45.65	36.90	44.70	34.10
Low	26.05	28.60	22.80	20.55
Close – October 31	43.50	33.60	32.20	31.08

### Capital ratios

Risk-adjusted (%):				
Tier 1	8.6	8.1	7.2	6.9
Total	12.2	11.9	10.6	10.4
Assets to capital ratio <sup>(5)</sup>	13.7	13.5	14.9	14.2
Common equity to total assets (%)	4.5	4.4	3.9	4.1

### Valuation measures

Dividend payout (%) <sup>(6)</sup>	27.3	29.7 <sup>(2)</sup>	30.3	25.1
Dividend yield (%) <sup>(7)</sup>	2.8	2.7	2.4	2.7
Price to earnings multiple <sup>(8)</sup>	11.9	11.5 <sup>(2)</sup>	12.2	10.5

### Other information

Average total assets (\$ millions)	238,664	229,037	213,973	179,176
Number of branches and offices	1,695	1,654	1,741	1,658
Number of employees <sup>(9)</sup>	40,946	40,894	42,046	38,648
Number of automated banking machines	2,669	2,322	2,244	2,030

- (1) In accordance with the guidelines issued by the Superintendent, in fiscal 1996, the Bank adopted new impaired loans accounting principles established by the Canadian Institute of Chartered Accountants. The adoption of these principles by the Bank resulted in a one-time increase in the allowance for credit losses recorded in the Consolidated Balance Sheet of \$202 and a corresponding cumulative charge to opening retained earnings of \$116 (being net of deferred income taxes of \$86) in fiscal 1996.
- (2) If the increase in the general provision had been charged to income (Note 22) then these 1999 financial ratios would have been: return on equity 12.0%, return on assets .54%, basic earnings per share \$2.29, fully diluted earnings per share \$2.28, dividend payout 38.0% and price to earnings multiple 14.3.
- (3) Pre-1996 comparative amounts have not been restated to reflect the separate reporting of unrealized gains and losses on trading derivative instruments in other assets and other liabilities as they were not reasonably determinable.

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

1996	1995	1994	1993	1992	1991	1990
\$ 1,575 100 (350) 1,325 —	\$ 1,100 675 (200) 1,575 —	\$ 1,300 — (200) 1,100 —	\$ 1,000 300 — 1,300 —	\$ 1,000 — — 1,000 —	\$ 750 250 — 1,000 —	\$ 550 200 — 750 —
\$ 1,325	\$ 1,575	\$ 1,100	\$ 1,300	\$ 1,000	\$ 1,000	\$ 750
\$ 1,994 — 167 \$ 2,161	\$ 1,839 — 155 \$ 1,994	\$ 1,429 280 130 \$ 1,839	\$ 1,308 — 121 \$ 1,429	\$ 1,201 — 107 \$ 1,308	\$ 1,106 — 95 \$ 1,201	\$ 1,016 — 90 \$ 1,106
\$ 3,751 (116) 1,069 (113) (305) (19) (4) — \$ 4,263	\$ 3,302 — 876 (104) (283) (15) (25) — \$ 3,751	\$ 3,175 — 482 (97) (253) 9 (14) — \$ 3,302	\$ 2,771 — 714 (92) (233) 20 (5) — \$ 3,175	\$ 2,335 — 676 (79) (211) 50 — — \$ 2,771	\$ 2,019 — 633 (79) (197) (37) (4) — \$ 2,335	\$ 1,780 — 512 (69) (190) (11) (3) — \$ 2,019

## OTHER STATISTICS<sup>(3)</sup>

15.8	14.2	7.9	14.4	15.7	16.7	14.9
58.8	59.9	65.6	57.7	56.8	58.0	62.3
.67	.64	.40	.71	.72	.72	.61
2.04	1.69	0.88	1.49	1.47	1.40	1.16
2.03	1.69	0.88	1.49	1.47	1.40	1.16
0.65	0.62	0.58	0.56	0.52	0.50	0.50
13.53	12.37	11.36	10.90	9.89	8.79	8.02
474,893	464,513	452,518	422,544	412,374	402,123	389,567
21.20	15.13	16.63	14.75	12.38	10.00	9.07
14.19	12.13	11.57	10.94	9.50	5.25	5.50
21.13	14.44	13.75	14.50	12.00	9.88	5.50
6.7	6.7	6.2	6.5	5.7	5.5	4.6
8.9	9.6	9.6	10.4	8.6	8.5	7.3
16.4	15.2	15.2	12.9	14.8	14.9	16.5
3.9	3.9	3.9	4.3	4.2	4.0	3.6
31.9	36.7	65.8	37.5	35.3	35.6	42.9
3.7	4.6	4.1	4.4	4.8	6.6	6.9
10.4	8.5	15.6	9.7	8.2	7.1	4.7
158,803	137,988	120,619	100,836	93,807	88,073	83,697
1,464	1,460	1,454	1,376	1,361	1,329	1,311
34,592	33,717	33,272	30,375	30,675	29,616	30,114
1,526	1,429	1,381	1,280	1,190	1,070	873

(4) Amounts have been retroactively adjusted to reflect the two-for-one stock split on February 12, 1998.

(5) Based on guidelines issued by the Superintendent of Financial Institutions Canada, the Bank's assets to capital ratio is calculated by dividing adjusted total assets by total regulatory capital.

(6) Dividend payments as a percentage of net income available to common shareholders.

(7) Based on the average of the high and low common share price for the year.

(8) Based on the closing common share price.

(9) Includes all personnel (part-time stated on a full-time equivalent basis) of the Bank and all its subsidiaries.

Sound and effective corporate governance is a priority for Scotiabank – indeed, we consider it essential to the long-term success of the Bank. Our corporate governance policies are designed to strengthen the ability of the Board of Directors to effectively supervise management and enhance long-term shareholder value.

Scotiabank gives high priority to its internal control environment, which includes strong management supervision, internal and external audits and the thor-

ough enforcement of the Bank's *Guidelines for Business Conduct*. This environment, in turn, is based on corporate governance structures and procedures which fully comply with the latest guidelines for corporate governance adopted by the Toronto Stock Exchange. Readers wanting a more detailed account of Scotiabank's corporate governance practices may refer to the Management Proxy Circular sent to all shareholders with the notice of the Bank's Annual Meeting.

## CORPORATE GOVERNANCE

### MANDATE AND DUTIES OF THE BOARD OF DIRECTORS

A strong, effective Board of Directors plays a crucial role in protecting the interests of shareholders and maximizing the value they receive from their investments in the Bank.

The Board's mandate is to oversee the Bank's strategic direction, its organizational structure and the succession planning of senior management. Each year, the Board evaluates the Bank's strategy in the context of the financial institutions marketplace. It then reviews and approves policies and practices relating to areas of risk management, including risk in the areas of credit, capital, foreign exchange, precious and base metals, interest rates, liquidity, securities portfolios, real estate appraisals, derivative products, the environment and offshore country assets.

The Board's duties are not, however, confined to strategic planning. Other important functions include appointing executive officers, including the Chief Executive Officer. The Human Resources Committee assists the Board in assessing management's performance, based on both qualitative and quantitative information.

In addition, the Board regularly reviews the performance of the Bank on a consolidated basis, as well as the performance of individual divisions and major subsidiaries. It compares and measures results against previously established and approved plans, against performance in past years and against industry peers.

### COMPOSITION OF THE BOARD

At the fiscal year end, the Bank's Board of Directors numbered 25 members. These directors include business and community leaders active at the regional, national and international levels, who provide an invaluable breadth of expertise. Overall, the size and composition of the Scotiabank Board reflect the broad geographic reach of our customer base, the communities in which we operate and our diversified international operations. The Corporate Governance Committee of the Board – which is composed exclusively of unrelated directors independent of management – identifies, evaluates and recommends nominees for directorship.

There are six standing committees of the Board: Audit, Conduct Review, Corporate Governance, Executive, Human Resources and Pension (see the Management Proxy Circular for a description of the responsibilities of each committee). All Board members participate in at least one standing committee, and a portion of the membership of each committee rotates periodically. The majority of standing committee members are Canadian residents and unrelated directors as defined in the Exchange guidelines. In the case of the Audit and Conduct Review Committees, however, all are unrelated, outside directors.

There are also three regional advisory committees, in Quebec, the Prairie Region and British Columbia/Yukon. They help directors from those regions to participate more actively in regional Bank affairs, provide general advice to local senior management, and review regional business opportunities.



## ACCOUNTABILITY/COMPLIANCE

The accountability of Scotiabank's Board is assured partly by the Bank's strict compliance with the Exchange guidelines and government regulations, and partly by the Bank's own internal rules and standards. All directors, officers and employees of the Bank must comply with Scotiabank's *Guidelines for Business Conduct*. The Audit Committee approves the Bank's internal control policies and the Board is responsible for monitoring the integrity of the internal control system. A comprehensive, annual self-assessment is conducted by the Bank, measuring its adherence to certain core policies and procedures, the results of which are reported to the Board and regulators.

In addition, strong internal compliance procedures are a permanent part of the everyday structure and operations of the Bank. The Group Compliance Department ensures various internal compliance initiatives and programs are current with industry best practices, evolving market conditions and new business initiatives. These initiatives and programs include the Scotiabank *Guidelines for Business Conduct*, the Scotiabank Group Compliance Program and infrastructure (including the Groupwide Compliance Network), the Bank Act Legislative Compliance Management System and other specialized compliance programs.

The Compliance Network is composed of compliance officers who have specific subsidiary, business line and/or departmental compliance responsibilities.

## MEDIATION AND REDRESS FOR CUSTOMERS

Unresolved customer complaints are heard and dealt with impartially by the Bank's Ombudsman, who reports directly to the Chief Executive Officer. The Ombudsman has the power to review and make recommendations on all retail and small business customer service decisions made within the Bank. For small business disputes, customers may also access the Scotia Business Credit Mediation Program.

As a last resort, both retail and small business customers may go directly to the Canadian Banking Ombudsman for an independent review of the situation.

## HONORARY DIRECTORS

Honorary Directors neither attend meetings of the Board, nor receive remuneration.

David W. Barr  
Don Mills, Ontario

Kenneth V. Cox, D.Sc., LL.D.  
Saint John, New Brunswick

John J. Jodrey, D.C.L., D.Eng.  
Hantsport, Nova Scotia

The Right Honourable  
Lord Keith of Castleacre  
London, England

Gordon F. MacFarlane  
Surrey, British Columbia

Donald Maclaren  
Ottawa, Ontario

Gerald J. Maier  
Calgary, Alberta

Malcolm H.D. McAlpine  
Herts, England

H. Harrison McCain, C.C.,  
LL.D.  
Florenceville, New Brunswick

William S. McGregor  
Edmonton, Alberta

David E. Mitchell, O.C.  
Calgary, Alberta

David Morton  
Westmount, Quebec

Sir Denis Mountain, Bt.  
London, England

Paul J. Phoenix  
Burlington, Ontario

Robert L. Pierce, Q.C.  
Calgary, Alberta

David H. Race  
Toronto, Ontario

Cedric E. Ritchie, O.C.  
Toronto, Ontario

Thomas G. Rust, C.M., LL.D.  
Vancouver, British Columbia

Judson W. Sinclair  
Don Mills, Ontario

Marie Wilson, Q.C.  
Toronto, Ontario

# Sound and Effective Corporate Governance

# BOARD OF DIRECTORS



**Peter C. Godsoe**

*Mr. Godsoe is Chairman of the Board and Chief Executive Officer of Scotiabank. He has been a Scotiabank director since February 1, 1982, and currently sits on the Executive Committee. He lives in Toronto, Ont.*



**Sir Graham Day**

*Sir Graham is a company director, Chairman of Hydro One Inc. and Counsel to Stewart McKelvey Stirling Scales. A Scotiabank director since October 31, 1989, he currently sits on the Corporate Governance, Executive and Human Resources Committees. He lives in Hantsport, N.S.*



**Lloyd I. Barber, C.C., S.O.M., LL.D., Ph.D.**

*Dr. Barber is President Emeritus of the University of Regina. A Scotiabank director since September 28, 1976, he currently sits on the Audit, Conduct Review and Pension Committees. He lives in Regina Beach, Sask.*



**N. Ashleigh Everett**

*Ms. Everett is President of Royal Canadian Securities Limited. She has been a Scotiabank director since October 28, 1997, and currently sits on the Audit Committee. She lives in Winnipeg, Man.*



**Malcolm R. Baxter**

*Mr. Baxter is Chairman, President and Chief Executive Officer of Coast Tire and Auto Service Ltd. He has been a Scotiabank director since March 31, 1992, and currently sits on the Conduct Review and Pension Committees. He lives in Saint John, N.B.*



**M. Keith Goodrich**

*Mr. Goodrich is the retired Chairman of Moore Corporation Limited. He has been a Scotiabank director since August 28, 1990, and currently sits on the Corporate Governance Committee. He lives in Lake Forest, Ill., U.S.A.*



**Bruce R. Birmingham**

*Mr. Birmingham is President of Scotiabank. He has been a Scotiabank director since September 29, 1992, and currently sits on the Pension Committee. He lives in Oakville, Ont.*



**The Honourable Henry N.R. Jackman**

*Mr. Jackman is Chairman and President of E-L Financial Corporation Limited. A Scotiabank director since September 30, 1997, he currently sits on the Corporate Governance and Executive Committees. He lives in Toronto, Ont.*



**Ronald A. Brenneman**

*Mr. Brenneman is President and Chief Executive Officer of Petro-Canada. He has been a Scotiabank director since March 28, 2000, and currently sits on the Audit Committee. He lives in Calgary, Alta.*



**Pierre J. Jeannot, O.C.**

*Mr. Jeannot is Director General and Chief Executive Officer of the International Air Transport Association. He has been a Scotiabank director since June 26, 1990, and currently sits on the Executive and Human Resources Committees. He lives in Canton de Vaud, Switzerland.*



**C.J. Chen**

*Mr. Chen is Senior Partner of Rajah & Tann. He has been a Scotiabank director since October 30, 1990, and currently sits on the Conduct Review and Pension Committees. He lives in Singapore.*



**John C. Kerr, O.B.C., LL.D.**

*Mr. Kerr is Chairman and Chief Executive Officer of Lignum Ltd. He has been a Scotiabank director since March 30, 1999, and currently sits on the Audit Committee. He lives in Vancouver, B.C.*



**E. Kendall Cork**

*Mr. Cork is Managing Director of Sentinel Associates Limited. He has been a Scotiabank director since December 4, 1973, and currently sits on the Conduct Review, Executive and Pension Committees. He lives in Hillsburgh, Ont.*





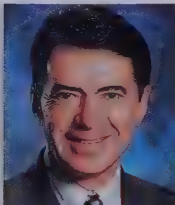
**The Honourable  
Michael J.L. Kirby**

*Mr. Kirby is a Member of the Senate of Canada. He has been a Scotiabank director since March 28, 2000, and currently sits on the Corporate Governance Committee. He lives in Nepean, Ont.*



**Arthur R.A. Scace, Q.C.**

*Mr. Scace is a Partner of McCarthy Tétrault. He has been a Scotiabank director since March 25, 1997, and currently sits on the Audit, Corporate Governance and Executive Committees. He lives in Toronto, Ont.*



**Laurent Lemaire**

*Mr. Lemaire is President and Chief Executive Officer of Cascades Inc. He has been a Scotiabank director since March 31, 1987, and currently sits on the Human Resources Committee. He lives in Warwick, Que.*



**Gerald W. Schwartz**

*Mr. Schwartz is Chairman, Chief Executive Officer and President of Onex Corporation. He has been a Scotiabank director since May 26, 1999, and currently sits on the Human Resources Committee. He lives in Toronto, Ont.*



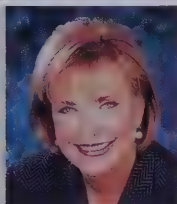
**John T. Mayberry**

*Mr. Mayberry is President and Chief Executive Officer of Dofasco Inc. He has been a Scotiabank director since March 29, 1994, and currently sits on the Corporate Governance, Executive and Human Resources Committees. He lives in Burlington, Ont.*



**Isadore Sharp, O.C.**

*Mr. Sharp is Chairman and Chief Executive Officer of Four Seasons Hotels Inc. He has been a Scotiabank director since March 27, 1990, and currently sits on the Human Resources Committee. He lives in Toronto, Ont.*



**The Honourable Barbara J.  
McDougall**

*Mrs. McDougall is President and Chief Executive Officer of the Canadian Institute of International Affairs. A Scotiabank director since March 30, 1999, she currently sits on the Audit Committee. She lives in Toronto, Ont.*



**Allan C. Shaw**

*Mr. Shaw is Chairman and Chief Executive Officer of The Shaw Group Limited. A Scotiabank director since September 30, 1986, he currently sits on the Executive and Human Resources Committees. He lives in Halifax, N.S.*



**Ian McDougall**

*Mr. McDougall is former Vice Chairman and Chief Financial Officer of Inco Limited. He has been a Scotiabank director since February 24, 1981, and currently sits on the Audit Committee. He lives in Lynbrook, N.Y., U.S.A.*



**Paul D. Sobey**

*Mr. Sobey is President and Chief Executive Officer of the Empire Company Limited. He has been a Scotiabank director since August 31, 1999, and currently sits on the Audit Committee. He lives in Kings Head, Pictou County, N.S.*



**Helen A. Parker**

*Mrs. Parker is a company director. She has been a Scotiabank director since November 26, 1976, and currently sits on the Conduct Review and Pension Committees. She lives in Sidney, B.C.*



**Elizabeth Parr-Johnston, Ph.D.**

*Dr. Parr-Johnston is President and Vice-Chancellor of the University of New Brunswick. A Scotiabank director since October 26, 1993, she currently sits on the Audit Committee. She lives in Fredericton, N.B.*



# EXECUTIVE OFFICERS

*as at November 2000*

**Robert W. Chisholm**  
*Vice-Chairman  
Domestic Banking*



**Richard E. Waugh**  
*Vice-Chairman  
Wealth Management &  
International Banking*

**Barry R. F. Luter**  
*Co-Chairman & Co-CEO  
Scotia Capital*



**W. David Wilson**  
*Co-Chairman & Co-CEO  
Scotia Capital*

**S. Dennis N. Belcher**  
*Executive Vice-President  
Credit & Risk Management*



**John F. M. Crean**  
*Senior Executive Vice-President  
Global Risk Management*

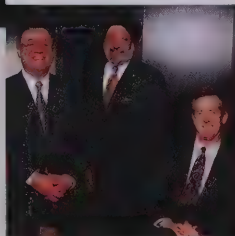
**Sylvia D. Chrominska**  
*Executive Vice-President  
Human Resources*



**Robert L. Brooks**  
*Executive Vice-President  
& Group Treasurer*

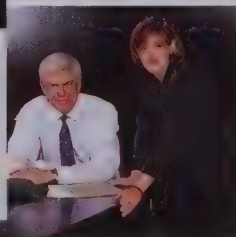
*from left:* **Albert E. Wahbe**  
*Chairman & CEO  
e-Scotia*

**Sarabjit S. Marwah**  
*Executive Vice-President  
& Chief Financial Officer*



**Robert H. Pitfield**  
*Executive Vice-President & Group Head  
Wealth Management*

**William P. Sutton**  
*Executive Vice-President  
Latin America*



**Peggy Mulligan**  
*Executive Vice-President  
Systems and Operations*

**John A. Young**  
*Executive Vice-President  
Domestic Branch Banking*



**Warren K. Walker**  
*Executive Vice-President  
Electronic Delivery*

# GLOSSARY

## **ALLOWANCE FOR CREDIT**

**LOSSES:** An allowance set aside which, in management's opinion, is adequate to absorb all credit-related losses from on- and off-balance sheet items. It includes specific, country risk and general provisions. Allowance for credit losses is deducted from the related asset categories on the balance sheet.

**ASSETS UNDER ADMINISTRATION AND MANAGEMENT:** Assets owned by customers, for which the Bank provides management and custodial services. These assets are not reported on the Bank's balance sheet.

**BANKERS' ACCEPTANCES (BAs):** Negotiable, short-term debt securities, guaranteed for a fee by the issuer's bank.

**BASIS POINT:** A unit of measure defined as one-hundredth of one per cent.

**CAPITAL:** Consists of common shareholders' equity, preferred shareholders' equity and subordinated debentures. It can support asset growth, provide against loan losses and protect depositors.

**COUNTRY RISK PROVISION:** Funds set aside initially in 1987-89 to cover potential losses on exposure to a designated group of emerging market countries determined by OSFI.

**DERIVATIVE PRODUCTS:** Financial contracts whose value is derived from an underlying price, interest rate, exchange rate or price index. Forwards, options and swaps are all derivative instruments.

**DESIGNATED EMERGING MARKETS (DEM):** Countries against whose loans and securities OSFI has required banks to set aside a country risk provision.

**FOREIGN CURRENCY TRANSLATION GAIN/LOSS:** The unrealized gain or loss recorded when foreign currency assets and liabilities are translated into Canadian dollars at a balance sheet date, when exchange rates differ from those of the previous balance sheet date.

**FOREIGN EXCHANGE CONTRACTS:** Commitments to buy or sell a specified amount of foreign currency on a set date and at a predetermined rate of exchange.

## **FORWARD RATE AGREEMENT**

**(FRA):** A contract between two parties, whereby a designated interest rate, applied to a notional principal amount, is locked in for a specified period of time. The difference between the contracted rate and prevailing market rate is paid in cash on the settlement date. These agreements are used to protect against, or take advantage of, future interest rate movements.

**FUTURES:** Commitments to buy or sell designated amounts of commodities, securities or currencies on a specified date at a predetermined price. Futures are traded on recognized exchanges. Gains and losses on these contracts are settled daily, based on closing market prices.

**GENERAL PROVISION:** Established by the Bank to recognize credit losses which have occurred as at the Balance sheet date, but have not yet been specifically identified on an individual item-by-item basis.

**GUARANTEES AND LETTERS OF CREDIT:** Assurances given by the Bank that it will make payments on behalf of clients to third parties if the clients default. The Bank has recourse against its clients for any such advanced funds.

**HEDGING:** Protecting against price, interest rate or foreign exchange exposures by taking positions that are expected to react to market conditions in an offsetting manner.

**IMPAIRED LOANS:** Loans on which the Bank no longer has reasonable assurance as to the timely collection of interest and principal, or where a contractual payment is past due a prescribed period. Interest is not accrued on impaired loans.

**MARKED-TO-MARKET:** The valuation of securities and off-balance sheet instruments, such as interest and exchange rate contracts, held for trading purposes, at market prices as of the balance sheet date. The difference between market and book value is recorded as a gain or loss to income.

**MIDDLE OFFICE:** The independent middle office plays a key role in risk management and measurement. It reviews trading models and valuations; develops and performs stress tests, sensitivity analysis and VAR calculations; reviews profit and loss performance; and participates in new product development.

**NET INTEREST MARGIN:** Net interest income, on a taxable equivalent basis, expressed as a percentage of average total assets.

## **NOTIONAL PRINCIPAL AMOUNTS:**

The contract or principal amounts used to determine payments for certain off-balance sheet instruments, such as FRAs, interest rate swaps and cross-currency swaps. The amounts are termed "notional" because they are not usually exchanged themselves, serving only as the basis for calculating amounts that do change hands.

## **OFF-BALANCE SHEET INSTRUMENTS:**

These are indirect credit commitments, including undrawn commitments to extend credit and derivative instruments.

**OPTIONS:** Contracts between buyer and seller giving the buyer of the option the right, but not the obligation, to buy (call), or sell (put) a specified commodity, financial instrument or currency at a set price or rate on or before a specified future date.

**OSFI:** The Office of the Superintendent of Financial Institutions Canada, the regulator of Canadian banks.

**PRODUCTIVITY RATIO:** Measures the efficiency with which the Bank incurs expenses to generate revenue. It expresses non-interest expenses as a percentage of the sum of net interest income on a taxable equivalent basis and other income. A lower ratio indicates improved productivity.

**REPOS:** Repos is short for "obligations related to assets sold under repurchase agreements" – a short-term transaction where the Bank sells securities, normally government bonds, to a client and simultaneously agrees to repurchase them on a specified date and at a specified price. It is a form of short-term funding.

**RETURN ON EQUITY (ROE):** Net income, less preferred share dividends, expressed as a percentage of average common shareholders' equity.

**REVERSE REPOS:** Short for "assets purchased under resale agreements" – a short-term transaction where the Bank purchases securities, normally government bonds, from a client and simultaneously agrees to resell them on a specified date and at a specified price. It is a form of short-term collateralized lending.

**RISK-ADJUSTED ASSETS:** Calculated using weights based on the degree of credit risk for each class of counterparty. Off-balance sheet instruments are converted to balance sheet equivalents, using specified conversion factors, before the appropriate risk weights are applied.

**SECURITIZATION:** The process whereby loans are sold to a special-purpose trust, which normally issues a series of different classes of asset-backed securities to investors to fund the purchase of loans. The Bank may provide a certain level of recourse against these loans. Provided the recourse is reasonable, the loans are usually removed from the Bank's balance sheet.

**SWAPS:** Interest rate swaps are agreements to exchange streams of interest payments, typically one at a floating rate, the other at a fixed rate, over a specified period of time, based on notional principal amounts. Cross-currency swaps are agreements to exchange payments in different currencies over predetermined periods of time.

## **TAXABLE EQUIVALENT BASIS (TEB):**

The grossing up of tax-exempt income earned on certain securities to an equivalent before-tax basis. This ensures uniform measurement and comparison of net interest income arising from both taxable and tax-exempt sources.

## **TIER 1, TOTAL CAPITAL RATIOS:**

These are ratios of capital to risk-adjusted assets, as stipulated by OSFI, based on guidelines developed under the auspices of the Bank for International Settlements (BIS). Tier 1 capital, the more permanent, consists primarily of common shareholders' equity plus non-cumulative preferred shares, less unamortized goodwill. Tier 2 capital is mainly cumulative preferred shares, subordinated debentures and the general provision. Together, Tier 1 and Tier 2 capital less certain deductions comprise Total capital.

**VALUE AT RISK (VAR):** VAR is an estimate of the potential loss of value that might result from holding a position for a specified period of time, with a given level of statistical confidence.



# SHAREHOLDER INFORMATION

## ANNUAL MEETING

Shareholders are invited to attend the 169th Annual and Special Meeting of Holders of Common Shares and a Special Meeting of Holders of Preferred Shares, to be held on March 6, 2001, at the World Trade and Convention Centre, Port Royal Room, 1800 Argyle Street, Halifax, Nova Scotia, Canada, beginning at 10:00 a.m. (Atlantic time).

## SHAREHOLDINGS AND DIVIDENDS

Information regarding your shareholdings and dividends may be obtained by contacting the Transfer Agent.

## DIRECT DEPOSIT SERVICE

Shareholders may have dividends deposited directly into accounts held at financial institutions which are members of the Canadian Payments Association. To arrange direct deposit service, please write to the Transfer Agent.

## DIVIDEND AND SHARE PURCHASE PLAN

Scotiabank's dividend reinvestment and share purchase plan allows common and preferred shareholders to purchase additional common shares by reinvesting their cash dividend without incurring brokerage or administrative fees.

As well, eligible shareholders may invest up to \$20,000 each fiscal year to purchase additional common shares of the Bank. Debenture holders may apply interest on fully registered Bank subordinated debentures to purchase additional common shares. All administrative costs of the Plan are paid by the Bank.

For more information on participation in the Plan, please contact the Transfer Agent.

## LISTING OF SHARES

Common shares of the Bank are listed for trading on the Toronto and London stock exchanges. Options on the Bank's common shares are listed for trading on the Toronto Stock Exchange.

Series 6, 7, 8, 9, 11 and 12 Preferred Shares of the Bank are listed on the Toronto Stock Exchange.

## STOCK SYMBOLS

Stock	Ticker Symbol	CUSIP No.
Common shares	BNS	064149 10 7
Series 6, Preferred	BNS.PR.E	064149 70 1
Series 7, Preferred	BNS.PR.F	064149 80 0
Series 8, Preferred	BNS.PR.G	064149 88 3
Series 9, Preferred	BNS.PR.H	064149 87 5
Series 11, Preferred	BNS.PR.I	064149 84 2
Series 12, Preferred	BNS.PR.J	064149 81 8

## DIVIDEND DATES FOR 2001

Record and payment dates for common and preferred shares, subject to approval by the Board of Directors.

Record Date	Payment Date
Jan. 2	Jan. 29
April 3	April 26
July 3	July 27
Oct. 2	Oct. 29

## QUARTERLY EARNINGS REPORTING

For 2001, Scotiabank's quarterly earnings are anticipated to be announced March 6, May 29, August 28 and December 5.

## FUTURE ANNUAL MEETING

The Annual Meeting for the year 2002 is scheduled for Tuesday, March 5, in Toronto, Ontario at 10:00 a.m. (Eastern time).

## VALUATION DAY PRICE

For Canadian income tax purposes, The Bank of Nova Scotia's common stock was quoted at \$31.13 per share on Valuation Day, December 22, 1971. This is equivalent to \$2.594 after adjustment for the two-for-one stock split in 1976, the three-for-one stock split in 1984 and the two-for-one stock split in 1998.

## DUPLICATED COMMUNICATION

Some registered holders of The Bank of Nova Scotia shares might receive more than one copy of shareholder mailings, such as this annual report. Every effort is made to avoid duplication; however, if you are registered with different names and/or addresses, multiple mailings may result.

If you receive, but do not require, more than one mailing for the same ownership, please contact the Transfer Agent to combine the accounts.

## CREDIT RATINGS

### Senior Long-Term Debt

DBRS	AA(low)
FITCH	AA-
Moody's	Aa3
Standard & Poor's	A+

### Non-Cumulative Preferred Shares

DBRS	Pfd-1 (low)n
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### Commercial Paper

DBRS	R-1 (middle)
Moody's	P-1
Standard & Poor's	A-1



# CONNECTING WITH SCOTIABANK

## Corporate Headquarters

Scotiabank  
Scotia Plaza  
44 King Street West  
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Tel.: (416) 866-6161  
Fax: (416) 866-3750  
E-mail: email@scotiabank.com

## Shareholder Services

TRANSFER AGENT AND REGISTRAR  
MAIN AGENT  
Montreal Trust Company of Canada  
100 University Avenue, 11th Floor  
Toronto, Ontario  
Canada M5J 2Y1  
Tel.: (416) 981-9633; 1-800-663-9097  
Fax: (416) 981-9507  
E-mail: caregistryinfo@computershare.com

CO-TRANSFER AGENT (U.S.A.)  
The Bank of Nova Scotia  
Trust Company of New York  
23rd Floor, 1 Liberty Plaza  
New York, N.Y. 10006  
Tel.: (212) 225-5470  
Fax: (212) 225-5436  
Telex: 00126777

CO-TRANSFER AGENT (UNITED KINGDOM)  
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Fax: +44 870 703 6101  
E-mail: Web.Queries@Computershare.co.uk

SECRETARY'S DEPARTMENT  
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Tel.: (416) 866-4790  
Fax: (416) 866-5090

FINANCIAL ANALYSTS, PORTFOLIO MANAGERS AND  
OTHER INSTITUTIONAL INVESTORS  
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Fax: (416) 866-7867  
E-mail: invrelns@scotiabank.ca

## For Further Information

PUBLIC AND CORPORATE AFFAIRS  
Scotiabank  
44 King Street West  
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Fax: (416) 866-4988  
E-mail: corpaff@scotiabank.com

CUSTOMER SERVICE CENTRE  
1-800-4-SCOTIA

## Online

For product, corporate, financial and  
shareholder information: [www.scotiabank.com](http://www.scotiabank.com)  
and [www.scotiacapital.com](http://www.scotiacapital.com)

## Annual Report

For copies of the annual report and other  
financial reports:  
Tel: (416) 866-3925  
Fax: (416) 866-4988  
E-mail: corpaff@scotiabank.com

## Worldwide Directory

For complete addresses, please refer to the  
Worldwide Directory. To obtain a copy, contact:  
Public and Corporate Affairs  
44 King Street West  
Toronto, Ontario  
Canada M5H 1H1  
Tel.: (416) 866-3925  
Fax: (416) 866-4988  
Web site: [www.scotiabank.com](http://www.scotiabank.com)

## Office of the Ombudsman

44 King Street West  
Toronto, Ontario  
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Fax: (416) 933-3276

Committed to customers, shareholders, employees  
and the communities where we live and work.



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